

FRANCHISE DISCLOSURE DOCUMENT



Submarina Franchise of California, LLC
a Texas limited liability company
5454 Grossmont Center Drive, Suite A
La Mesa, California 91942
760-717-2397
franchise@submarina.com
www.submarina.com

You will operate a retail business that offers submarine style sandwiches using hand-sliced-to-order meats and cheeses served on artisan breads that are baked fresh daily as well as side items, soft drinks, chips, and related items under the SUBMARINA® or SUBMARINA CALIFORNIA SUBS® trade name and business system (“SUBMARINA Store” or “Store”).

The total investment necessary to develop a SUBMARINA Store ranges from \$182,500 to \$370,250. This includes \$20,750 that must be paid to us or our affiliate if this is your first Store and \$15,250 that must be paid to us or our affiliate if this is your second or subsequent Store.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Brian Kennedy, 5454 Grossmont Center Drive, Suite A, La Mesa, California 91942; 760-717-2397.

The terms of your contract will govern your franchise relationship. Do not rely on the disclosure document alone to understand your contract. Read your entire contract carefully. Show your contract and this Franchise Disclosure Document to an advisor, like a lawyer or an accountant.

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

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

Date of Issuance: March 25, 2024

HOW TO USE THIS FRANCHISE DISCLOSURE DOCUMENT

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

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit D.
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 Submarina 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 Submarina franchisee?	Item 20 or Exhibit D 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 F.

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 franchisor by mediation, arbitration, and/or litigation, in California. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost you more to mediate, arbitrate, or litigate with the franchisor in California than in your own state.

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

MICHIGAN NOTICE

The State of Michigan prohibits certain unfair provisions that are sometimes in franchise documents. If any of the following provisions are in these franchise documents, the provisions are void and cannot be enforced against you:

- (a) A prohibition against you joining an association of franchisees.
- (b) A requirement that you assent to a release, assignment, novation, waiver, or estoppel which would deprive you of rights and protections provided under the Michigan Franchise Investment Law. This does not preclude you, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits us to terminate your franchise prior to the expiration of its term except for good cause. Good cause includes your failure to comply with any lawful provision of the Franchise Agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits us to refuse to renew your franchise without fairly compensating you by repurchase or other means, for the fair market value at the time of expiration, of your inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to us and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This provision applies only if:
 - (i) The term of the franchise is less than five years; and
 - (ii) You are prohibited by the Franchise Agreement or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise, or if you do not receive at least six months advance notice of our intent not to renew the franchise.
- (e) A provision that permits us to refuse to renew the franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This provision does not require a renewal provision in the Franchise Agreement or other agreement.
- (f) A provision requiring that arbitration or litigation be conducted outside of Michigan. This does not preclude you from entering into an agreement, at the time of the arbitration, to conduct arbitration at a location outside of Michigan.
- (g) A provision which permits us to refuse to permit a transfer of ownership of the franchise, except for good cause. This provision does not prevent us from exercising a right of first refusal to purchase the franchise. Good cause includes, but is not limited to:
 - (i) The failure of the proposed transferee to meet our then-current reasonable qualifications or standards.
 - (ii) The fact that the proposed transferee is a competitor of ours.
 - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
 - (iv) The failure of the franchisee or proposed transferee to pay any sums owing to us or to cure any default in the Franchise Agreement existing at the time of the proposed transfer.

- (h) A provision that requires you to resell to us items that are not uniquely identified with the franchisor. This does not prohibit a provision that grants us a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does it prohibit a provision that grants us the right to acquire the assets of a franchise for the

market or appraised value of such assets if you have breached the lawful provisions of the Franchise Agreement and have failed to cure the breach in the manner provided in (c), above.

(i) A provision which permits us to directly or indirectly convey, assign, or otherwise transfer our obligations to fulfill contractual obligations to you unless provision has been made for providing the required contractual services.

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 by any franchisor, franchise seller, or other person acting on behalf of franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

The fact that there is a notice of this offering on file with the Attorney General does not constitute approval, recommendation, or endorsement by the Attorney General.

Any questions concerning this notice should be directed to the Michigan Department of Attorney General, Consumer Protection Division, Franchise Unit, 525 W. Ottawa Street, G. Mennen Williams Building, 1st Floor, Lansing, Michigan 48913; 517-373-7117.

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE DISCLOSURE DOCUMENT**

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STATE-SPECIFIC ADDENDA

EXHIBITS

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Exhibit B	Franchise Agreement (with state-specific amendments and attachments)
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Exhibit D	List of Franchisees
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ITEM 1

THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

To simplify the language in this disclosure document, the term “we” means Submarina Franchise of California, LLC, the franchisor. The term “you” means the person buying the franchise, the franchisee. If the franchisee is a general partnership, the term “you” refers to all partners. If the franchisee is a corporation, limited liability company, or other business entity, the term “you” refers to the franchisee, and the term “Owners” refers to any individual or entity with a beneficial ownership in the franchisee (including shareholders of a corporation, members of a limited liability company, general and limited partners of a limited partnership, etc.).

The Franchisor and Any Parents, Predecessors, and Affiliates

We are a Texas limited liability company formed on July 12, 2017. We do business only under our corporate name and under the name “SUBMARINA” and maintain our principal place of business at 5454 Grossmont Center Drive, Suite A, La Mesa, California 91942. We are owned by California Subbros, Inc. (“Parent”), which was formed on September 22, 2017. Our Parent shares our principal place of business. Our agents for service of process in the states that require franchise registration are listed in Exhibit G.

On or about July 26, 2017, we acquired the assets of Submarina, Inc. (“Predecessor”) out of Chapter 11 bankruptcy. Our Parent purchased us on October 6, 2017.

We grant franchises for retail businesses that offer submarine style sandwiches using hand-sliced-to-order meats and cheeses served on artisan breads that are baked fresh daily as well as side items, soft drinks, chips, and related items under the SUBMARINA® or SUBMARINA CALIFORNIA SUBS® trade name and business system (“SUBMARINA Store” or “Store”). We call this the “Franchised Business.” Our affiliates, Subbros, Inc. and SD Subbros, Inc., each own a SUBMARINA Store. We consider these company owned Stores.

We have been offering franchises of the type described in this disclosure document since October 2017. Neither we, our Parent, nor any affiliates and have ever offered franchises in any other line of business.

Description of the Franchised Business

We franchise the right to operate Stores according to the SUBMARINA® proprietary business format and system (“System”), which includes our distinctive exterior and interior design, decor, and color scheme; furnishings; proprietary ordering procedures; special recipes and menu items; proprietary food preparation techniques and presentation standards; community and social networking presence and protocols; specifications, policies, and procedures for operations; quality and uniformity of the products and services offered; procedures for inventory, management, and financial control; training and assistance; advertising and promotional programs; and other standards, specifications, techniques, and procedures that we designate for developing, operating, and managing a SUBMARINA® Store, all of which we may change, improve, and further develop.

SUBMARINA® Stores are identified by the SUBMARINA® and SUBMARINA CALIFORNIA SUBS® service mark and other proprietary trademarks, service marks, indicia of origin, and trade dress that we designate to identify businesses operating according to our System (“Marks”).

Market and Competition

The market for the products and services that you will offer is well-established and highly competitive.

Your Store will compete with quick service and fast casual restaurants, full service restaurants, supermarkets, convenience stores offering sandwiches and other take-out meal options, and other meal option providers. Competitors may be locally-owned or large, regional or national chains.

The Franchised Business will also compete with other restaurants and retail businesses for management personnel and for highly sought-after commercial real estate.

Industry Specific Regulation

The Franchised Business must comply with laws and regulations that apply to businesses generally, including the Americans with Disabilities Amendments Act, Federal Wage and Hour Laws, and the Occupation, Health, and Safety Act. The Franchised Business also must comply with all laws and regulations that apply to restaurants and food safety handling including regulations promulgated by the U.S. Food and Drug Administration, the U.S. Department of Agriculture, and those issued and enforced by state and local health departments. State and local agencies inspect Stores to ensure that they comply with these laws and regulations.

The federal Clean Air Act and various implementing state laws require certain state and local areas to meet national air quality standards limiting emissions of ozone, carbon monoxide, and particulate matters, including caps on omissions from commercial food preparation. Some areas have also adopted or are considering proposals that would regulate indoor air quality.

Some state and local authorities have also adopted, or are considering adopting, laws or regulations that would affect the content or make-up of food served in restaurants, such as the level of trans fats and sodium contained in a food item. Additionally, the U.S. Food and Drug Administration has issued regulations that require certain restaurants and retail food establishments to post caloric information on menus and menu boards and to provide additional written nutrition information to consumers upon request.

You should consider these laws and regulations when evaluating your purchase of a franchise.

ITEM 2 **BUSINESS EXPERIENCE**

Brian Kennedy – Chief Executive Officer

Brian Kennedy has served as our Chief Executive Officer since October 6, 2017. He is also the co-owner of Subbros, Inc. and SD Subbros, Inc., which own two SUBMARINA® stores that opened in October 1996 and July 2010, respectively. Brian is based in La Mesa, California.

Matthew Kennedy – Chief Operating Officer

Matthew Kennedy has served as our Chief Operating Officer since October 6, 2017. He is also the co-owner of Subbros, Inc. and SD Subbros, Inc., which own two SUBMARINA® stores that opened in October 1996 and July 2010, respectively. Matt is based in La Mesa, California.

Jeffrey P. Sinelli – Director

Jeffrey Sinelli has served as our Director since December 2017. He is also the founder of WHICH WICH® Superior Sandwiches and has served as its Director, Chief Executive Officer, and Chief Vibe Officer since September 2003. He also serves as Director and President of SWP Ventures, Inc. (1997 to present), Director and President of Sinelli Concepts International, Inc., formerly known as SWP Downtown, Inc. (2003 to present), Director and President of Which Wich, Inc. (2003 to present), Director and President of Which Wich Franchise Services, Inc. (2007 to present), Director and Chief Executive Officer of Which Wich Franchise International, Inc. (December 2012 to present), and Chief Executive Officer of Paciugo Franchise International, LLC (2017 to present), all of which are located in Dallas, Texas.

ITEM 3 LITIGATION

Past Litigation

In Re: Submarina, Inc.; Case No. BK-S-12-22097-MKN; Adv. No. 13-01051-MKN; in the United States Bankruptcy Court, District of Nevada. On March 27, 2013, after filing for bankruptcy as described in Item 4, our Predecessor, Submarina, Inc., filed an adversary proceeding against several of its franchisees, for failure to pay royalties and advertising contributions. Our Predecessor alleged the following causes of action: (1) breach of contract, (2) breach of the implied covenant of good faith and fair dealing, (3) unjust enrichment, (4) constructive fraud, (5) declaratory relief and injunctive relief, (6) specific performance/mandatory injunction, and (7) tortious interference. Ten of the defendant franchisees filed a counterclaim for breach of management of the marketing and promotion fund. Our Predecessor settled with five of the franchisees, and a judgment in the amount of \$442,563.27 was entered in favor of our Predecessor against seven franchisees. The judgments were assigned to us, and we released the franchisees from payment of the judgments and dismissed our claims. On July 9, 2019, the Court entered a final decree closing the case.

Other than the litigation described above, no other litigation is required to be disclosed.

ITEM 4 BANKRUPTCY

In Re: Submarina, Inc.; Case No. BK-S-12-22097-MKN; in the United States Bankruptcy Court, District of Nevada. On October 25, 2012, our Predecessor, Submarina, Inc., filed a voluntary Chapter 11 petition for reorganization. As part of the bankruptcy proceeding, on or about July 26, 2017, we acquired our Predecessor's assets. On July 9, 2019, the Court entered a final decree closing the case.

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

ITEM 5 INITIAL FEES

Document Preparation Fees

When we approve your franchise application for your first Store, you will pay us a \$750 non-refundable application and document preparation fee for your first Franchise Agreement. You also must reimburse us for any out-of-pocket attorneys' fees that we incur in connection with awarding you a franchise.

When we prepare your second and additional Franchise Agreements, if applicable, you will pay us a \$250 non-refundable fee to prepare each Franchise Agreement and \$250 non-refundable fee for any amendment agreement that may be required.

Initial Franchise Fee

When you sign the Franchise Agreement, you will pay us an initial franchise fee of \$15,000 for your first Store and \$10,000 for each additional Store you develop, but you are not guaranteed the right to develop additional Stores. The initial franchise fee is calculated uniformly for all franchisees and is nonrefundable upon payment.

Site Selection Assistance

Before you select a site for your Store, at your request, and/or if we determine it necessary, our representative will visit you one time in your site selection area, without charge, to either assist you in finding suitable sites or to evaluate sites that you have identified. If you request additional site visits or assistance, or if we believe additional site visits or assistance are necessary, you must pay us \$500 per additional site visit and pay or reimburse us our out-of-pocket expenses that we incur in providing the Submarina Franchise of California, LLC

assistance, including costs of transportation, lodging, and meals. These amounts are non-refundable. Once you have an approved site for the Store, you are responsible for site development and build-out.

Pre-Opening Assistance Fee

We will provide you pre-opening assistance and advice we deem appropriate, by telephone or remote means, which may include advice regarding site development and build-out, employee staffing levels and recruiting resources, purchasing and inventory control, marketing methods, and general operational matters. Our pre-opening assistance does not include on-site visits to the Store. If you request an on-site visit, or if we determine it is necessary, you must pay us \$500 for each pre-opening assistance visit we make to the Store, plus you must pay or reimburse us our out-of-pocket expenses that we incur in providing the assistance, including costs of transportation, lodging, and meals. These amounts are non-refundable.

Opening Assistance Fee

With respect to your first Store, we will provide 10 days of on-site opening assistance. To help reimburse for our expenses related to this assistance, you must pay us an Opening Assistance Fee, which is a non-refundable, flat fee of \$5,000. If you ask us to provide additional assistance for your opening, we may charge you for it, based on our then-current per diem rate plus our related expenses, including costs of travel, lodging, and meals. Our current per diem fee is \$250 per day, and we reserve the right to increase the Opening Assistance Fee and per diem rate by 10% each year. These amounts are not refundable.

With respect to your second or additional Stores, although we are not required to provide pre-opening or opening assistance, if you request our assistance, or if we consider the assistance necessary, we will provide the assistance for the same amount as the then-current Opening Assistance Fee.

Veteran's Discount

We offer a military discount to veterans who have a certified DD214 issued by the U.S. Department of Defense. The discount is \$5,000 off the initial franchise fee of \$20,000 for the first Franchise Agreement entered into for the development of a new Store. We may, but are not required to, offer this discount on second and subsequent Franchise Agreements entered into for the development of new Stores, but you are not guaranteed the right to develop additional Stores.

ITEM 6 OTHER FEES

Franchise Agreement

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Royalty Fee	6% of Gross Sales	Weekly	See Note 2 for the definition of Gross Sales. You will pay the royalty fee by electronic funds transfer.
Brand Development Fund Contribution	2% of Gross Sales	Weekly	You will contribute to the Brand Development Fund by electronic funds transfer.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Local Advertising Requirement	1% of Gross Sales	Monthly	We may require all or a portion of the local advertising requirement dollars be contributed to a franchisee advertising association and/or to the Brand Development Fund. We may also require you to pay us directly your required local advertising contribution, then we will reimburse you for your actual local advertising expenditures and contribute the remainder to the Brand Development Fund. Payments will be made by electronic funds transfer.
Franchisee Advertising Association	As determined by the applicable Association; currently 1.5% to 1.75% of Gross Sales, depending on the location of the Association; all fees associated with forming the Association (see Item 11 for Association-specific information)	As determined by the applicable Association	You must participate in a franchisee Association, if we require. The members of the Association must pay regular dues and all fees associated with the formation of the Association. We may require you to pay your required Advertising Association contributions to us via electronic funds transfer. If we do, we will then submit your contributions to the Association.
Unauthorized Advertising	\$1,000 per occurrence	When billed	We have the right, at our option, to assess you a \$1,000 fee per occurrence for the use of any unauthorized marketing and advertising materials. If we assess this fee, we are not limited or precluded from seeking other remedies available to us.
Business Directory Listing	Cost	On demand	You will place and pay the cost of business directory listings (which may be print and/or electronic format) in the directories and categories as we specify.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Merchandise for Resale; Equipment; Decor Items	Reasonable cost	On demand	We may provide to you at a reasonable cost certain collateral merchandise for resale that identifies the system; for example, caps, and t-shirts, equipment, and decor items.
Related Promotional Costs	Cost; varies per promotion	On demand	You must participate, at your expense, in any loyalty programs, prize promotions, sweepstakes, meal deals, and/or any other promotional campaign that we designate. The cost of these promotions will vary depending on whether or not you have to purchase merchandise or discount menu prices.
Interest	18% per year or the maximum lawful rate	On demand	We may charge interest on all overdue amounts.
Non-sufficient Funds Fee	\$50 for each returned check or draft; may be increased each year by an amount not to exceed 10% of the then-current amount plus reimbursement of our costs incurred to collect	On demand	
Additional Opening Assistance	If requested by you or required by us, then-current per diem, plus reimbursement of our travel-related expenses; our current per diem rate is \$250	Before additional training	You must also pay the expenses of your personnel who attend training; subject to availability of our personnel. We will provide you an estimate of our travel-related expenses before providing the additional opening assistance.
Additional Training	Cost of tuition as determined at the time, plus expenses of your personnel who attend training	Before additional training	You must also pay the wages of your personnel who attend training. The cost of tuition will be based upon the costs we incur.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
On-site Remedial Training	Then-current per diem fee for remedial training, plus reimbursement of our travel-related expenses; our current per diem rate is \$250	When billed	If you ask, or if we require, we will (subject to availability) provide trained representatives to conduct on-site remedial training at your Store. We will provide you an estimate of our travel-related expenses before providing the remedial training.
Transfer Fee	No fee to transfer for convenience of ownership or non-controlling interest, except reimbursement of our attorneys' fees For all other transfers: at our election, either \$5,000 if transferee is an existing franchisee or \$7,500 if transferee is not an existing franchisee; fee is non-refundable	With transfer application When transfer is requested	Convenience of ownership: There is no fee if an individual assigns his or her rights to a corporation, limited liability company, or other entity controlled by the same individual.
Relocation Fee	No fee if relocation is due to an event of Force Majeure For Requested Relocations, there is a \$5,000 Relocation Fee	Upon approval of request to relocate	
Private or Public Offering Fee	Reimbursement of our reasonable costs and expenses associated with the proposed offering	When billed	We limit our review to the manner in which the offering materials treat our relationship with you.
Renewal Fee	50% of our then-current initial franchise fee	Signing of renewal Franchise Agreement	You must give us at least 12 months' and not more than 24 months' notice to renew and meet other renewal conditions.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Inspection and Testing	Cost of inspection, if applicable, and cost of test	When billed	Before approving a supplier at your request, we may require you to pay the cost of testing the supplier's products and the cost of inspecting its facilities, including reimbursement of transportation, lodging, meals, and salary expense for individuals performing the evaluation. We will provide you an estimate of the costs and expenses you will be required to pay before we incur such costs.
Indemnification	Varies according to loss	On demand	You must defend and indemnify us against certain losses relating to your actions.
Audit Fee	Cost of audit as charged by third-party auditor	When billed	Payable if an audit shows you have understated any amount owed to us by 3% or more.
Intranet Fee	\$120/month	Monthly	The Intranet Fee is an amount we determine, not to exceed \$150 (currently \$120 in 2024); amount may be increased each year by 10% of the then-current monthly fee.
Insurance Fee	A reasonable amount based on our administrative expenses	On demand	If you fail to maintain the required insurance, we may (but need not) obtain it for you. If we do, we will charge you a fee, plus our administrative expenses, which are described below.
Enforcement Costs (Administrative Fee)	Will vary	As incurred	If you do not comply with the Franchise Agreement, we have the right to charge you a fee not to exceed \$100 per hour for costs we incur in enforcing the Franchise Agreement due to your failure to comply with any provision plus attorneys' fees and other related costs.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Online Ordering	Up to \$200 per month	When billed	You must participate in the customer online ordering program, and you must pay for the costs associated with the program; amount may be increased each year by 10% of the then-current monthly fee.
Operating Days	\$250 per day, each day your Store is closed without permission	On demand	You must open and operate the Store seven days a week unless otherwise directed in the Manual or previously approved by us in writing.
Customer Comment Reimbursement	Will vary	On demand	In the event customers contact us with complaints about your Store, you must reimburse us for any payments we make to the customer, and the payment made to the customer will be at our discretion. We require you to pay the Customer Comment Reimbursement Fee through electronic funds transfer.
Equipment Replacement or Repair Fee	Will vary	As incurred	In the event equipment is removed because it does not comply with System standards, we have the right to replace such equipment or to make arrangements to have such equipment serviced, repaired, and/or cleaned at your expense.
De-identification Fee	Will vary	On demand	We have the right, at our option and at your expense, to enter the Store premises and take all actions necessary to de-identify the premises as a SUBMARINA® Store. Such costs incurred due to our de-identification efforts must be paid by you immediately upon notice.

Notes:

(1) All fees and expenses described above are non-refundable and, unless otherwise indicated, we impose all fees uniformly, and all fees are payable to us via electronic funds transfer.

(2) Gross Sales is the total Selling Price of all services and products and all income of every other kind and nature related to your SUBMARINA® Store, including income related to catering operations and special events and the full value of meals provided to your bona fide employees as a benefit of their employment (except you may deduct from Gross Sales the value of any employee discounts that are given during the week in which the meals are provided), whether for cash or credit and regardless of collection in the case of credit. Gross Sales does not include (i) receipts from any public telephone, vending machine, or video games installed in your SUBMARINA® Store, except for your share of the revenues; (ii) sales (or similar) taxes that you collect from your customers if you transmit them to the appropriate taxing authority; (iii) proceeds from isolated sales of trade fixtures that are not part of the products and services you offer and that do not have any material effect on the operation of your SUBMARINA® Store; (iv) tips or gratuities paid directly by Store customers to your employees or paid to you and then turned over to these employees by you in lieu of direct tips or gratuities; or (v) returns to shippers or manufacturers. Gross Sales also does not include proceeds from the sale of gift certificates or stored value cards (all proceeds from the sale of gift certificates and stored value cards belong to us), but it does include the redemption value of gift certificates and stored value cards at the time purchases are made. You are responsible for the accurate reporting of gift certificate and stored value card sales and the corresponding impact on Gross Sales. You have until 30 days after the end of our fiscal year to notify us of any errors you made in calculating Gross Sales as those errors relate to the reporting of gift certificate and stored value card sales. "Selling Price" is defined as the non-discounted, regular menu price.

ITEM 7
ESTIMATED INITIAL INVESTMENT
YOUR INITIAL ESTIMATED INVESTMENT

Franchise Agreement

Type of Expenditure ⁽¹⁾	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Initial Franchise Fees ⁽²⁾	\$10,000 to \$15,000	Lump Sum	When you sign the Franchise Agreement	Us
Document Preparation Fee ⁽³⁾	\$250 to \$750	As Arranged	As Arranged	Us
Site Selection Assistance ⁽⁴⁾	\$0 to \$1,000	As Arranged	As Arranged	Us
First Month's Rent and Security Deposit ⁽⁵⁾	\$2,000 to \$14,000	As Arranged	As Arranged	Lessor
Leasehold Improvements ⁽⁵⁾	\$95,000 to \$190,000	As Arranged	As Arranged	Contractor
Store Design Consulting Services ⁽⁶⁾	\$5,500 to \$11,500	As Arranged	As Arranged	Suppliers

Type of Expenditure ⁽¹⁾	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Furniture, Fixtures, and Signage ⁽⁷⁾	\$47,500 to \$65,000	As Arranged	As Arranged	Suppliers
Initial Training Costs ⁽⁸⁾	\$0 to \$5,000	As Arranged	As Invoiced	Employees and Suppliers
Pre-Opening Consultation ⁽⁹⁾	\$0 to \$ 1,000	As Arranged	As Arranged	Us
Opening Assistance Costs ⁽¹⁰⁾	\$0 to \$5,000	As Arranged	As invoiced	Us
Computer Hardware and Software ⁽¹¹⁾	\$2,500 to \$10,000	As Arranged	As Arranged	Suppliers
Initial Inventory/Supplies ⁽¹²⁾	\$3,500 to \$7,000	As Arranged	As Arranged	Suppliers
Professional Services ⁽¹³⁾	\$2,500 to \$7,000	As Arranged	As Arranged	Accountants, Lawyers, etc.
Opening Advertising Expenses ⁽¹⁴⁾	\$3,500 to \$5,000	As Arranged	As Arranged	Suppliers
Insurance ⁽¹⁵⁾	\$250 to \$3,000	As Arranged	As Arranged	Insurance Broker
Additional Funds ⁽¹⁶⁾	\$10,000 to \$30,000			
TOTAL	\$182,500 to \$370,250			

Notes:

(1) All fees and expenses described above that are paid to us are non-refundable. Whether or not amounts paid to third-party suppliers are refundable depends on the policies of the suppliers.

(2) The initial franchise fee for your first Store is \$15,000 and \$10,000 for your second and subsequent Stores.

(3) When we approve your franchise application to develop your first Store, you will pay us \$750 (consisting of a \$500 application fee, plus a \$250 document preparation fee for your first Store) and reimburse us any additional out-of-pocket attorneys' fees that we incur in connection with awarding you a franchise. At the time we prepare the Franchise Agreement for Store 2 or any additional Franchise Agreements for you, you will pay us \$250 to prepare each Franchise Agreement and \$250 for any amendment agreement that may be required.

(4) See Item 5 for more information about these charges. The high figure assumes that two additional site visits are required. Additionally, you will have to pay our costs of transportation, lodging, and meals.

(5) This estimate is based on our affiliates' and franchisees' experience in finishing out an existing space for a SUBMARINA® Store. SUBMARINA® Stores are typically located in commercially zoned shopping or entertainment areas. Due to the cost of land acquisition and new construction, the premises for SUBMARINA® Stores are normally leased. These amounts assume that you will lease the premises for the Store and do not include costs of land acquisition and construction of a building. The leasehold improvements estimate is based on the cost of adapting our prototypical architectural and design plans

(including architect fees) to a facility containing approximately 500 to 3,000 square feet. The low figure assumes that you will be converting an existing take-out Store to a SUBMARINA® Store. The high figure assumes that you will be a first generation tenant and that you will be responsible for providing connections to adequate electrical, gas, water, and sewage services. The high figure also assumes that the landlord will be providing a \$75,000 allowance for tenant improvements. Your actual costs for leasehold improvements also will be affected by various other factors like the location of the Store, local market conditions, and whether or not union fees are imposed upon construction costs. Your actual costs may or may not include site preparation and finish-out costs, depending on the arrangements you negotiate with your landlord.

(6) The minimum includes consultation with no site visit. The maximum includes a site visit by the consultant, plus you may have to pay the consultant's additional out-of-pocket expenses.

(7) These amounts include the cost of the furniture, fixtures, equipment, smallwares, decor items, interior graphics, sound system, and signage required for your SUBMARINA® Store.

(8) We provide, at no additional charge, initial training to the people we require to attend the initial training. We may require you to attend additional training conducted by third parties. The figures in the chart represent your estimated training-related, out-of-pocket costs for two people to attend initial training; wages are not included. You must pay all expenses you or your employees incur in the initial training programs, like travel, lodging, meals, and wages. These costs will vary depending upon a variety of factors including salaries, wage rates, choice of hotels and dining facilities, and airfare or other transportation costs. The low end assumes attendees live in the La Mesa area and will not have any travel-related expenses.

(9) The low figure assumes no on-site pre-opening assistance visits; the high figure assumes two pre-opening, on-site consultation visits. Additionally, you will have to pay our costs of transportation, lodging, and meals.

(10) For your first Store, we provide on-site opening assistance for 10 days for a flat Opening Assistance Fee of \$5,000. For your second and each additional Store, at your request, or if we deem it necessary, we will provide additional on-site opening assistance, subject to the availability of our personnel, and you must pay us the then-current Opening Assistance Fee amount.

(11) The low figure assumes that you will lease or finance payment of the computer system and reflects three months of estimated lease or finance payments (\$833.33 per month). The high figure assumes that you will purchase the computer system.

(12) This estimate includes the cost of food, beverages, condiments, packaging, and other supplies for approximately the first two to ten days of operations.

(13) This estimate covers professional and state filing fees for forming a business entity, and professional fees for engaging an attorney to assist you with your franchise purchase. The cost of professional services can vary widely.

(14) Unless we agree otherwise, you must carry out an advertising program that promotes the opening of the Store that complies with our written specifications. We must approve all advertising items, methods, and media.

(15) This amount represents an estimated down payment of your annual insurance premiums, equal to one month's payment. See Item 8 for a description of your minimum insurance requirements. Your cost of insurance may vary depending on the insurer, the location of your Store, your claims history, and other factors.

(16) You will need additional funds during the start-up phase of your business to pay employees, purchase supplies, and pay other expenses. We estimate the start-up phase to be three months from the date you open for business. These amounts do not include any estimates for debt service. You must also pay the

royalty and other related fees described in Item 6 of this disclosure document. These figures are estimates, and we cannot assure you that you will not have additional expenses. Your actual costs will depend on factors like your management skills, experience, and business acumen. You should base your estimated start-up expenses on the anticipated costs in your market and consider whether you will need additional cash reserves. We relied on the experience of our affiliates' company-owned SUBMARINA® Store to compile these estimates. You should review these figures carefully with your business advisor.

We do not offer any financing for your initial franchise fee or any portion of your initial investment. Unless otherwise stated, the amounts described above are not refundable.

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

Purchases from Approved or Designated Suppliers; Purchases According to Specifications

You must purchase from us or from designated sources all: (1) fixtures, furniture, equipment, interior and exterior signage, graphics, decor, trade dress, and Store design consulting services; (2) food products and ingredients whether or not they are developed by or for us through a special recipe, formula, or specifications, including but not limited to bread, bread products, meat, and protein-related products; (3) all fountain and bottled beverages; (4) uniforms, shirts, memorabilia, and all merchandise and items intended for retail sale (whether or not bearing our Marks); (5) advertising, point-of-purchase materials, and other printed promotional and marketing materials; (6) gift certificates and stored value cards; (7) stationery, business cards, contracts, and forms; (8) bags, packaging, and supplies bearing our Marks; and (9) all other goods and/or services as we require. In addition to approved suppliers, we may require you to buy your requirements of food, ingredients, and supplies from affiliated or third-party distributors. Information concerning approved and designated suppliers will be communicated to you via the Manual.

You must purchase the computer hardware and software that we require from our approved third-party vendor. See Item 11 for more information about computer hardware and software requirements.

If you propose to purchase from an unapproved source any items for use in your Store for which we have identified, designated, or approved supplier(s), you must request our approval. We may require, as a condition of granting approval, that our representatives be permitted to inspect the supplier's facilities, and that information, specifications, and samples as we reasonably require be delivered to us or to an independent, certified laboratory for testing. We may charge a fee for testing, which will not exceed the reasonable cost of the inspection and the actual cost of the test. We will notify you within 60 days of your request as to whether you may purchase products from the proposed supplier. If we agree to evaluate a supplier, we will provide the supplier with our specifications and standards and our criteria for supplier approval.

Currently, neither we nor any of our Affiliates are designated or approved suppliers for any products or services, and neither we, nor any of our officers owns an interest in any privately-held suppliers or a material interest in any publicly-held suppliers of our franchise system.

You may purchase items and services for which we have not identified approved suppliers from any supplier, if the items and services meet our specifications. These specifications may include brand requirements. If brand requirements have been identified, you may purchase and use only approved brands. Our specifications are issued through written communications to you.

Franchised Location and Lease

You must acquire a site for your Store that meets our site selection criteria and that we approve. If the Store occupies a space according to a commercial lease, the lease must contain terms that we specify. (See Lease

Rider attached as Attachment D to the Franchise Agreement.)

You must construct, equip, and improve the Store in compliance with our then-current design standards and trade dress, and you must obtain initial Store design consulting services from us or an approved supplier. You must purchase and install, at your expense, all millwork and customized seating, fixtures, furnishings, equipment, decor, and signs from us or an approved third-party supplier.

Insurance

You must obtain and maintain insurance policies protecting you and us and our affiliates as additional insureds on a primary non-contributory basis. The insurance must be underwritten by insurers licensed and admitted to write coverage in the state in which the Store is located and with a rating of "A" or better by the A.M. Best Company's rating guide. These policies must include the coverage that we require, which currently includes: (a) "all risk" property insurance, including business interruption insurance, customarily obtained by similar businesses in the Store's principal trade area; (b) comprehensive general liability insurance, including products and contractual, in an amount of not less than \$2,000,000 combined single limit; (c) automobile liability coverage, including coverage of owned, non-owned and hired vehicles with coverage in amounts not less than \$1,000,000 combined single limit; and (d) workers' compensation insurance in amounts required by applicable law or, if permissible under applicable law, any legally appropriate alternative providing substantially similar compensation for injured workers satisfactory to us. You and your insurers must agree to waive rights of subrogation against us and our affiliates. At least 10 days before you are required to carry insurance, and after that at least 30 days before the expiration of any policy, you must deliver to us certificates of insurance evidencing the proper types and minimum amounts of required coverage, and evidence of the waiver. We reserve the right to unilaterally modify the minimum coverage requirements set forth above as market or industry conditions warrant. We also recommend that you discuss with your insurance professional whether or not you should carry other types of insurance applicable to the Franchised Business, such as employment practices liability insurance and insurance relating to data privacy breaches.

Revenue Derived from Franchisee Purchases and Leases

We and our affiliates may derive revenue from your purchases and leases to the extent that you buy products or services from us or from our affiliates. Neither we nor our affiliates received any revenue as a result of these types of purchases or leases in our most recent fiscal year.

We also may receive payments or material benefits from suppliers based on your purchases or leases. In our most recent fiscal year, we received \$24,137 in rebates. This amount is 3% of our total revenue of \$823,615.

Estimated Proportion of Required Purchases and Leases to all Purchases and Leases

We estimate that your purchases and leases from us or our designated suppliers will be approximately 90% of your total initial investment (not including the initial franchise fee) and approximately 90% to 95% of your ongoing purchases and leases in the operation of the Franchised Business.

Description of Purchasing Cooperatives; Purchasing Arrangements

We may negotiate purchase arrangements with primary suppliers for the benefit of franchisees. If we negotiate a purchase agreement for the region where your Store is located, you must participate in the purchasing program. We do not provide material benefits to you (for example, renewal or granting additional franchises) based on your purchase of particular products or services or use of particular suppliers.

Currently, no purchasing or distribution cooperatives exist in the franchise system.

ITEM 9
FRANCHISEE'S OBLIGATIONS

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

Obligation	Section(s) in Franchise Agreement	Disclosure Document Item
a. Site selection and acquisition/lease	Sections 3.1. and 3.3.	Items 8 and 11
b. Pre-opening purchases/leases	Sections 3.4., 6.5., 6.6., 10.1., and 10.2.	Items 5, 6, 7, 8, and 11
c. Site development and other pre-opening requirements	Sections 3.4. and 5.3.	Items 1, 7, 8, and 11
d. Initial and ongoing training	Sections 5.1. and 5.5.	Items 6, 7, and 11
e. Opening	Sections 3.5. and 5.3.	Items 7 and 11
f. Fees	Summary Pages and Sections 3.3., 3.6., 4.1., 4.2., 4.8., 4.10., 4.11., 6.4., 6.11., 9.1., 9.3., 9.4., 9.5., 9.6., and 12.4.6.	Items 5, 6, 8, and 11
g. Compliance with standards and policies/Manual	Article 8	Items 8, 11, 14, and 16
h. Trademarks and proprietary information	Article 7	Items 11, 13, and 14
i. Restrictions on products/services offered	Sections 6.4., 6.5., 6.6., and 6.8.	Items 8 and 16
j. Warranty and customer service requirements	Not applicable	Item 16
k. Territorial development and sales quotas	Not applicable	Item 12
l. Ongoing product/service purchases	Sections 6.5., 6.6., and 8.2.	Items 8, 11, and 16
m. Maintenance, appearance and remodeling requirements	Sections 6.7. and 6.10.	Item 8
n. Insurance	Section 11.2.	Items 7 and 8
o. Advertising	Article 9	Items 6, 8, and 11
p. Indemnification	Section 11.3.	Item 6
q. Owner's participation/management/staffing	Sections 6.2., 6.3., and 6.7.	Items 1, 11, and 15
r. Records and reports	Sections 10.4., 10.5., and 10.6.	Item 11
s. Inspections and audits	Sections 6.9. and 10.7.	Items 6 and 11

Obligation	Section(s) in Franchise Agreement	Disclosure Document Item
t. Transfer	Article 12	Items 6, 12, and 17
u. Renewal or extension of rights	Section 2.2.	Items 6, 12, and 17
v. Post-termination obligations	Section 15.2.	Item 17
w. Noncompetition covenants	Section 15.1. and 15.2.	Item 17
x. Dispute resolution	Article 19	Item 17

ITEM 10 FINANCING

We do not offer direct or indirect financing, and we do not guarantee your notes, leases, or other obligations.

ITEM 11

FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING

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

Before you open your SUBMARINA® Store, we or our designee will:

1. Provide you site selection assistance you request or we believe to be necessary. (Franchise Agreement, Section 3.1.).
2. Review your proposed site for compliance with our site selection guidelines and approve or deny your site approval request within 60 days after receiving your site information. However, once your site is approved, we are not responsible for any construction delays due to change orders, acts of God, disputes with landlords, architects, contractors, subcontractors, or any other vendor or due to any other action or reason occurring under your management of the build-out (Franchise Agreement, Section 3.2.).
3. Provide you access to our Manual (Franchise Agreement, Section 8.1.).
4. Provide you a list of any approved suppliers (Franchise Agreement, Sections 6.4, 6.5., and 6.6.).
5. Conduct an initial training program (Franchise Agreement, Section 5.1.).
6. With regard to your first Store, provide you on-site pre-opening consultation and opening assistance (Franchise Agreement, Sections 5.2. and 5.3.).
7. Review your opening advertising promotion plan and materials (Franchise Agreement, Section 9.2.).

During the operation of the Franchised Business, we or our designee will:

1. Provide ongoing consultation and offer remedial or additional training, at our option (Franchise Agreement, Section 5.4., 5.5, and 5.6.).
2. Give you any advice and written materials we may develop on the techniques of managing and operating SUBMARINA® Stores. (Franchise Agreement, Section 5.4.).
3. At our discretion, make available to you at a reasonable cost any merchandise we develop or approve for resale (Franchise Agreement, Section 6.6.).
4. Give you updated lists of approved suppliers, as we deem appropriate (Franchise Agreement, Section 6.6.3.).

5. Administer the Brand Development Fund and provide any advertising and promotional materials we develop for local advertising (Franchise Agreement, Section 9.3.).

6. Provide you access to proprietary software programs (if any) that may be developed by us or on our behalf for use in the System. We reserve the right to charge a reasonable license fee (Franchise Agreement, Section 10.2.).

Advertising

Our advertising program for the products and services offered by SUBMARINA® Stores currently consists primarily of local store marketing efforts coordinated at the Store level by individual franchisees. These activities may include both marketing inside the Store to current customers, as well as external efforts. In addition, some marketing activities are coordinated at the national level. These activities may include national “limited time offer” menu items, public relations, social media, email marketing, local marketing consultation with franchisees, loyalty programs, and other national-level efforts. Our advertising materials currently are created in-house and with the help of an outside advertising agency. You may develop your own advertising and marketing materials, at your own expense, subject to the requirements described below.

We must approve all of your promotional and marketing materials before you may use them, whether in paper, electronic, or digital format, which includes Internet/Website advertising. To obtain approval, you must submit to us samples of the proposed materials and notify us of the intended media. We will use good faith efforts to approve or disapprove your materials within 15 days from the date we receive them. You may not use the materials until they are approved, and we have the right to disapprove materials that we have previously approved.

Opening Advertising

Unless we agree otherwise, within 30 days of opening the Store, you must carry out an advertising program that promotes the opening of the Store. Your advertising program must comply with our standards, which may include, but are not limited to, the requirement of certain materials and media, the length of the promotion, and the amount spent, which we estimate may range from \$0 to \$3,500. We must approve, in advance, all advertising items, methods, and media you use in connection with opening advertising program.

Brand Development Fund

You must contribute weekly to the Brand Development Fund 2% of Gross Sales.

We have the right to use Brand Development Fund monies to pay for any and all advertising, marketing, promotions, and public relations activities that use or contain the Marks. Such expenses may include: creative development services (including creation (and related research) and modification of Store design and trade dress, logos, Marks, copyrights, and other intellectual property, menu design, graphics and vehicle wraps, and advertising and promotional items, including the cost of retiring expired or obsolete printed items and materials, photography services, and design software); preparing and procuring market studies, providing or obtaining marketing services (including, without limitation, new product development; conducting customer surveys, focus groups, and marketing-related mystery shops and customer interviews); employing advertising and/or public relations agencies; developing, producing, distributing and placing advertising (including, without limitation, preparing and conducting media advertising campaigns in various media, local Store advertising and promotion in a particular area or market, or for the benefit of a particular Store or Stores in connection with Store opening promotions or otherwise); conducting and administering in-Store promotions; preparing and executing direct mail advertising, and developing, producing, and purchasing point-of-sale advertising, menus and menu boards, and other sales aids and promotional items and materials); research and development (including, without limitation, purchase of equipment (including ovens), smallwares, and packaging required for new product testing and

development, hiring culinary talent and/or engaging culinary consultants, and intellectual property-related research and filings, including patents and Internet-based intellectual properties); developing, updating, and hosting SUBMARINA® Websites and Web-based platforms (including development of locator programs) and/or an intranet or extranet system; soliciting new franchises; obtaining sponsorships and endorsements; preparing and conducting sweepstakes and other promotions; developing, administering, and distributing coupons, certificates and stored value card programs, and the cost of products associated with the redemption of free coupons, gift certificates and stored value cards; developing and administering other customer loyalty programs; developing and administering online ordering platforms; providing and procuring public relations services; conducting public relations activities; charitable donations; and membership fees in international, national, regional, and/or local trade or other associations or organizations. From time to time, we may engage in initiatives, new or otherwise, relating to the brand development activities stated above, and in order to implement or maintain the new or existing initiatives, we may use Brand Development Fund monies to pay for the initial and recurring costs of new or existing initiatives. We may use Brand Development Fund monies to reimburse us for our costs of personnel and other administrative and overhead costs (whether internal or third party) associated with providing the Brand Development Fund activities. We reserve the right to shift all or a portion of an initiative's recurring costs from the Brand Development Fund to the franchisees, as authorized under the Franchise Agreement. We also may use Brand Development Fund monies to reimburse us for our costs of personnel and other administrative and overhead costs associated with providing the services described in this paragraph.

We or our designee will administer the Brand Development Fund. Any amounts contributed to the Brand Development Fund that are not spent in the year they are collected will remain in the Brand Development Fund for use during the next year. In any fiscal year, we may spend on behalf of the Brand Development Fund an amount greater or less than the aggregate contributions of all franchisees to the Brand Development Fund in that year. The Brand Development Fund may borrow money from us or others to cover deficits, if any, from time to time. If we or our affiliate lends money to the Brand Development Fund, we may charge interest at an annual rate that is 1% greater than the rates we or our affiliates pay our lenders.

The following is a percentage breakdown of the use of the Fund for our 2023 fiscal year:

Production	16 %
Media Placement	19 %
Administration	32.5 %
Print	9.5 %
Brand Development Infrastructure	13.5 %
Retained/Carry Over	(9.5) %
TOTAL	100 %

Although not contractually required to do so, we anticipate that each SUBMARINA® Store owned by us or an affiliate of ours will contribute to the Brand Development Fund on the same basis as our franchisees. Upon your reasonable request, we will provide you an annual unaudited statement of Brand Development Fund contributions and expenditures. We are not obligated to spend Brand Development Fund monies on the placement of advertising in your trading area or to ensure that your Restaurant benefits directly or on a *pro rata* basis from the expenditure of Brand Development Fund monies.

Local Advertising

In each calendar year during the term of the Franchise Agreement, you must spend 1% of Gross Sales to promote the Store in your market area. However, we may require you to contribute all or a portion of your

local advertising dollars to the Fund and/or to an Advertising Association, described below. You will be given credit for having made your required local advertising expenditures when these substitute contributions are made by you. Additionally, we may require you to pay us your required local advertising expenditures via weekly contributions, and we will reimburse you on a quarterly basis from these monies, based upon the actual documented amount spent on advertising by you. Any amount less than 1% of Gross Sales not spent by you for the fiscal year will be contributed to the Brand Development Fund.

Franchisee Advertising Association or Advertising Council

We can designate any geographic area in which two or more affiliate-owned or franchised SUBMARINA® Stores are located as a region for a franchisee advertising association (“Association”). If we do, the Association must be organized and governed as we determine, and the Association must pay any fees associated with organizing the Association including attorneys’ fees and state filing fees. Any Associations we authorize will be for the exclusive purpose of administering advertising programs and developing promotional materials for use by members in local advertising. If an Association is established for an area in which any Store is located, you must become a member of the Association and participate in the Association by contributing the amounts required by the Association’s governing documents, and you must abide by the Bylaws of the Association. The Association will have the right to establish its own fees. You must also submit to the Association and to us all statements and reports that we, or the Association, may require. Association contributions will be maintained and administered under the Association’s governing documents, and the Association will be operated solely as a conduit for the collection and expenditure of advertising contributions. We may require you to pay your required Advertising Association contributions to us via electronic funds transfer. If we do, we will then submit your contributions to the Association on your behalf.

We have the sole right to form, change, dissolve, and merge Associations and to create and amend any organizational and governing documents of any Association. Once established, we may terminate and/or dissolve the Association at any time. The Association will not be terminated, however, until all monies in the Association have been expended for authorized purposes or returned to contributing Stores (whether franchised or company or affiliate-owned), without interest, on the basis determined by a majority vote of its members. Each Association must prepare annual, unaudited financial statements, which will be made available to contributing Association members.

No advertising council has been established for the franchise system.

Computer and Electronic Cash Register Systems

The Franchise Agreement requires that you use only the point of sale cash registers and computer systems and equipment that we prescribe for SUBMARINA® Stores (“POS System”) and that you adhere to our requirements for use. Requirements may include connection to remote servers, off-site electronic repositories, and high speed Internet connections. We may require you to add to your POS System memory, ports, and other accessories or peripheral equipment or additional, new, or substitute software, replace or upgrade your POS System (software and hardware) and other computers, and enter into maintenance agreements for the POS System and other computers, and you must pay all associated costs. Because the POS System must be used solely for POS-related purposes that are set forth by the POS System provider and approved by us, you may elect to purchase a secondary computer for use at the Store for routine business functions and related software, such as Internet browsing, word processing, spreadsheet preparation, and emailing. We will provide you 90 days advance written notice of any changes to our POS System requirements. You must acquire, install, and maintain such anti-virus and anti-spyware software as we require, and must adopt and implement such Internet user policies as we may prescribe for purposes of avoiding, blocking, and eliminating viruses and other conditions that interfere with the operation of the

POS System. We anticipate the cost of purchasing all required computer hardware and software systems to be approximately \$15,000.

You must: (a) use any proprietary software programs, system documentation manuals, and other proprietary materials that we require in connection with the operation of the Store; (b) input and maintain in your computer such data and information as we prescribe; and (c) purchase new or upgraded software programs, system documentation manuals, and other proprietary materials at then-current prices whenever we adopt new or upgraded programs, manuals, and materials system-wide. You must enter into all software license agreements, “terms of use” agreements, and software and hardware maintenance agreements, in the form and manner we prescribe, and pay all fees imposed under the agreements.

You must acquire and use, from the date the Franchise Agreement is signed until the expiration or termination of the Franchise Agreement, a valid email address. You must provide us notice of any changes to your email address and provide us the new or revised email address immediately upon its acquisition.

We may independently poll your Gross Sales and other information input and compiled by your POS System from a remote location. We also may require that you connect to a Web-based application that enables us to independently access and poll the information on your POS System. There is no contractual limitation on our right to independently access this information.

Neither we, nor affiliates, nor any third parties must provide ongoing maintenance, repairs, upgrades, or updates to your POS System or other computer equipment. Except as described above, there are currently no optional or required maintenance/upgrade contracts for the POS System or other computer equipment. If you decide to enter into optional contracts, we have no way of knowing the costs associated with those optional contracts, however, we estimate that the annual costs of such contracts may be as much as 1% of Gross Sales.

You must, at all times, be compliant with all applicable and current Payment Card Industry Data Security Standards (“PCI DSS”) requirements and other data security policies that we may implement. For more information about PCI DSS, you may visit <https://www.pcisecuritystandards.org/>.

Training

At least 30 days before the Opening Date of your first Store or before acquiring one existing Store, at least two people (one of which must be your Operating Principal or District Manager, if applicable) must attend and satisfactorily complete, as we determine, our initial training program. The second person to attend the initial training does not have to be the Store’s manager, but this person must be approved by us to attend training. Currently, our training is conducted either over a period of three consecutive weeks in La Mesa, California or three consecutive weeks in La Mesa, California and two additional consecutive weeks at one of our Certified Training Stores located throughout the United States, and is scheduled as system needs require. If you are acquiring more than one existing Store, then at least 30 days before you close on the acquisition of the Stores, you must comply with our then-current training requirements for such transactions. The number of people who must attend and satisfactorily complete to our satisfaction the initial training and the length of training will vary depending on the number of Stores you acquire. In addition to the other people we require to attend initial training, your Operating Principal or District Manager, if applicable, must attend and satisfactorily complete, as we determine, our initial training program for acquisitions of this type. We provide instructors and training materials at no charge, but you must pay all training-related expenses, including travel, lodging, and dining expenses for persons who attend training. We may require you to attend additional on-the-job training (up to an additional four weeks) at a Certified Training Store (defined below) selected by us or to attend training provided by a third party. These training programs may be provided in cities other than La Mesa, California.

Our training is administered under the supervision of Matt Kennedy, who has 25 years of experience in the field of training and restaurant operations and has been with us since October 2017. Training will also be conducted by qualified members of our staff, including management personnel and employees. We may also draw upon the experience of third-party professionals and programs and the assistance and facilities of other franchisees in our system (“Certified Training Stores”). Instruction materials come from a variety of sources, and will include information taken from our Manual and many other tools and materials that you will be expected to use in your daily operations.

The subjects covered and other information relevant to our initial training program are described below. The classroom portion of our initial training program will occur in La Mesa, California. The on-the-job training may occur in La Mesa, California or at Certified Training Stores located throughout the United States.

INITIAL TRAINING PROGRAM

Subject	Classroom Training Hours	On-the-Job Training Hours	Location
Submarina Introduction, Personnel, and History	1 hour	-	La Mesa, California or Location of Certified Training Store
Responsibilities of the Franchisees/Franchisor	1 hour	-	La Mesa, California or Location of Certified Training Store
Pre-Opening Timeline	1 hour	-	La Mesa, California or Location of Certified Training Store
Site Build-Out and Equipment Ordering	1 hour	-	La Mesa, California or Location of Certified Training Store
Accounting/Reporting	2 hours	-	La Mesa, California or Location of Certified Training Store
Recruitment/Interview Process	1 hour	-	La Mesa, California or Location of Certified Training Store

Subject	Classroom Training Hours	On-the-Job Training Hours	Location
Training Employees	1 hour	-	La Mesa, California or Location of Certified Training Store
Managing Employees	1 hour	-	La Mesa, California or Location of Certified Training Store
Manager Duties	1 hour	-	La Mesa, California or Location of Certified Training Store
Customer Service	1 hour	-	La Mesa, California or Location of Certified Training Store
POS Overview/Tools	1 hour	-	La Mesa, California or Location of Certified Training Store
Safety Guidelines	1 hour	-	La Mesa, California or Location of Certified Training Store
Advertising/Marketing	1 hour	-	La Mesa, California or Location of Certified Training Store
Position Training (cashier, line, prep, bus)	-	20-140 hours	La Mesa, California or Location of Certified Training Store
Manager Training and Computer/POS Training	-	20 hours	La Mesa, California or Location of Certified Training Store
TOTAL HOURS OF TRAINING:	14 hours	40-160 hours	

Our initial training program is subject to change, without notice, to reflect updates in the materials, methods, and manuals and changes in personnel. The subjects taught and the time periods allocated for each subject may vary based on the experience of the trainees. If you notify us within six months of completing the initial training program that you believe you did not receive adequate training, we will permit you and one additional person to attend our next regularly scheduled training program without charge. If we do not receive notification within this six-month period, then you will be deemed to have waived any claim that you did not receive adequate training.

At our request, your Operating Principal, District Manager, and other of your employees that we designate must attend additional courses, seminars, and training programs that we may reasonably require, the delivery of which may include, but is not limited to, online training, regional meetings or seminars, traditional classroom training, and programs offered at the Submarina Franchise Meeting. We may charge a reasonable tuition for these additional courses, seminars, or other training programs that we conduct or sponsor. Third-party providers of programs may also charge an attendance fee. You are responsible for all training-related costs and expenses including salary, travel, lodging, and dining costs for all of your employees who attend training. You must pay all expenses you or your personnel incur in attending the Submarina Franchise Meeting, including the cost of travel, lodging, meals, wages, and registration fees, if we choose to charge registration fees.

Confidential Operations Manual

Within three days after both parties have signed the Franchise Agreement, we will provide you access to our Intranet site, which contains all of the materials that constitute our Manual. Your access to the Manual through our Intranet does not grant you ownership of the Manual or any of its contents. A copy of the current table of contents of the Manual is attached as Exhibit E. We consider the contents of the Manual to be proprietary, you must treat them as confidential, and you may not make any copies of the Manual. Our Manual contains 215 pages.

Site Selection and Opening

When you sign the Franchise Agreement, we will agree on a “Site Selection Area” within which you may locate the Store. You must identify an acceptable site for the Store within 180 days after the Effective Date of the Franchise Agreement. For each proposed site that you identify, you must deliver to us a franchise site application request packet in a form that we prescribe, including information about the site as we may reasonably request to perform our evaluation. We will approve or refuse to approve your proposed site within 60 days of receiving all requested information about the site. Our failure to provide notification within this time period will not be considered either approval or disapproval. The criteria that we use to evaluate the site include general location and neighborhood, traffic patterns, parking, size, physical characteristics of existing buildings and lease terms. If you fail to identify a site that is acceptable to us, and as a result you do not open the Store by the Opening Date, defined below, we may terminate the franchise.

We anticipate that a SUBMARINA® Store will open for business 9 to 12 months after the Franchise Agreement is signed or a franchisee pays consideration for the franchise. Factors which may affect the length of time between signing of the Franchise Agreement and opening for business include the time necessary to locate a location which we will accept; to obtain any financing you need; to obtain required permits and governmental agency approvals; to fulfill local ordinance requirements; to complete construction, remodeling, alteration, and improvement of the Franchised Location, including the installation of fixtures, equipment, and signs; to complete our initial training program and to complete the hiring and training of personnel. Delays in construction may be caused by inclement weather, material or labor shortages, labor actions, slow deliveries, equipment shortages, and other similar factors.

When the site is selected, we will mutually agree on an “Opening Date” for the Store. Your Opening Date will be the date of your actual Store opening or 120 days from the date you take possession of the premises

for the approved site for your Store, whichever occurs first; but the Opening Date must be no later than 365 days from the Effective Date of your Franchise Agreement. If you are unable to open your Store within 365 days from the Effective Date, we may, but we are not obligated to, extend your Opening Date deadline in our sole discretion, if you have sent the extension request to us, in writing.

ITEM 12 TERRITORY

You will operate the Store from a location that you select and that we approve. You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control. You may not relocate the Store without our prior written consent.

Under the Franchise Agreement, you do not have any right of first refusal to obtain additional Stores.

We reserve to ourselves all rights, including the right: (a) to own and operate and to grant others the right to own and operate SUBMARINA® Stores regardless of their proximity to your Store(s); (b) to operate SUBMARINA® Stores and license the use of the Marks and the System in Captive Markets (defined below); and (c) the right to distribute products and services identified by the Marks, such as pre-packaged products, through alternative channels of distribution including grocery stores, supermarkets, convenience stores, other store chains, and via mail order, catalog sales, and/or the Internet. We are not required to compensate you if we exercise any of the rights specified above. You are not restricted from soliciting or accepting orders from consumers except with respect to Captive Markets and alternate channels of distribution, or if we limit the area in which you can provide catering services.

“Captive Markets” means the enclosed area of retail sales establishments, including without limitation, shopping malls, grocery stores, and retailers that are part of regional or national chains; food courts; airports; hospitals; cafeterias; commissaries; schools and universities; hotels; office buildings; stadiums; arenas; ballparks; festivals; fairs; military bases; and other mass gathering locations or events.

ITEM 13 TRADEMARKS

We own and have registered or applied for registration the following Marks with the U.S. Patent and Trademark Office. All required affidavits have been filed.

Mark	Register	Registration / Serial Number	Registration / Application Date
SUBMARINA	Principal	98303436	December 7, 2023
SUBMARINA A BETTER BUILT SUB (stylized letters)	Principal	4959866	May 17, 2016
SUBMARINA CALIFORNIA SUBS (stylized letters)	Principal	3147532	September 26, 2006
SUBMARINA CALIFORNIA SUBS (word mark)	Principal	3630150	June 2, 2009
THE BEST SUBS UNDER THE SUN	Principal	5052737	October 4, 2016
POWERED UP	Principal	5006169	July 26, 2016

Mark	Register	Registration / Serial Number	Registration / Application Date
CALI-STYLE	Principal	4991707	July 5, 2016
AVOCADO HEAVEN	Principal	4959518	May 17, 2016
BIG FOOT SUB	Principal	6730316	May 24, 2022
A BETTER BUILT SUB	Principal	3905701	January 11, 2011

There is no presently effective determination of the U.S. Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court, nor any pending infringement, opposition, or cancellation proceeding, nor any pending material litigation involving the Marks which is relevant to their ownership, use, or licensing.

We know of no superior prior rights or infringing use that could materially affect your use of the Marks, and we know of no agreements currently in effect which significantly limit our rights to use or license the use of the Marks in any manner material to the franchise.

We are not obligated to protect your rights to use the Marks or to protect you against claims of infringement or unfair competition.

You must immediately notify us of any infringement of the Marks or of any challenge to the use of any of the Marks or claim by any person of any rights in any of the Marks. You and your Principals must agree not to communicate with any person other than us, any designated affiliate, and our or their counsel about any infringement, challenge, or claim. We, or our affiliates, have sole discretion to take any action we deem appropriate and the right to exclusively control any litigation or Patent and Trademark Office (or other) proceeding from any infringement, challenge, or claim concerning any of the Marks. You must execute all instruments and documents and give us any assistance that, in our counsel's or our affiliates' counsel's opinion, may be necessary or advisable to protect and maintain our interests or those of our affiliates in any litigation or proceeding or to otherwise protect and maintain our or their interest in the Marks.

You may use only the Marks that we designate, must use them only in the manner that we authorize and permit, and must use them with the symbols, “®”, “™”, or “SM”, as appropriate. You may use the Marks only in connection with the operation and promotion of the Franchised Business, and only in the manner we prescribe. You may not use the Marks or any part of the Marks in your corporate name, and may not use them to incur any obligation or indebtedness on our behalf. You must also follow our instructions for identifying yourself as a franchisee and for filing and maintaining the requisite trade name or fictitious name registrations. You must execute any documents we or our counsel determine are necessary to obtain protection for the Marks or to maintain their continued validity and enforceability. Neither you nor your Principals may take any action that would prejudice or interfere with the validity of our rights with respect to the Marks and may not contest the validity of our interest in the Marks or assist others to do so.

You may not use the Marks or any part or derivative of the Mark on the Internet, except as expressly permitted in writing. This prohibition includes use of the Marks or any derivative of the Marks as part of any URL or domain name, including but not limited to any gaming Website, social networking Website, or marketing/discounting Website; as part of any user name; or as part of any unauthorized email address.

We have the right to substitute different trade names, service marks, trademarks, and indicia of origin for the Marks if the Marks can no longer be used, or if we determine, in our sole discretion, that the substitution

will be beneficial to the System. If we do, we may require you to discontinue or modify your use of any Mark or use one or more additional or substitute Marks at your expense.

ITEM 14
PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

We do not own any patents that are material to the franchise, nor do we have any pending patent applications. We do claim copyright protection and proprietary rights in the original materials used in the System, including our menus, Manual, bulletins, correspondence, and communications with our franchisees, training, advertising, and promotional materials, the content and design of our Website, and other written materials relating to the operation of SUBMARINA® Stores and the System (“Copyrighted Works”).

There is no presently effective determination of the U.S. Copyright Office (Library of Congress) or any court affecting our copyrights. There is no currently effective agreement that limits our right to use and/or license our copyrights. We are not obligated by the Franchise Agreement, or otherwise, to protect any rights you have to use the copyrights. We have no actual knowledge of any infringements that could materially affect the ownership, use, or licensing of the copyrights. You may not use any of our copyrighted works on the Internet without our written permission. This includes display of the copyrighted works on commercial, gaming, marketing, promotional, or social networking Website.

You and your employees must maintain the confidentiality of all information contained in the Manual and other information that we consider confidential, proprietary, or trade secret information. “Confidential Information” means all trade secrets, the Standards, and other elements of the System; all customer information; all information contained in the Manual; our proprietary recipes and standards and specifications for product preparation, packaging and service; financial information; marketing data; vendor and supplier information; all other knowledge, trade secrets, or know-how concerning the methods of operation of the Franchised Business which may be communicated to you, or of which you may be apprised, by virtue of their operation under the terms of the Franchise Agreement, and all other information that we designate.

ITEM 15
OBLIGATION TO PARTICIPATE IN THE
ACTUAL OPERATION OF THE FRANCHISED BUSINESS

The Franchised Business must be supervised on-premises by an Operating Principal. If the franchisee is an individual or general partnership, the Operating Principal will be the individual franchisee or one of the general partners. If the franchisee is a business entity, the Operating Principal must hold at least a 10% equity interest in the business entity. Unless we approve the appointment of a District Manager, the Operating Principal must successfully complete our initial training program and must devote full-time efforts to the management and operation of the Franchised Business. We must approve your Operating Principal as meeting our qualifications for the position. If your Operating Principal ceases to serve in, or no longer qualifies for, the position, you must designate a replacement Operating Principal within 30 days. Your replacement Operating Principal must meet the same criteria as your preceding Operating Principal. You and your Operating Principal must attend our Submarina Franchise Meeting.

If the franchisee operates multiple SUBMARINA® Stores, or if the Operating Principal will not devote full-time efforts to the management and operation of the Store, then, in addition to the Operating Principal, you must appoint an individual to serve as your District Manager. Your District Manager need not have an equity interest in the franchise, but must have completed our initial training program to our satisfaction and must live in the market where the majority of your Stores are located. Your District Manager must devote his or her full time efforts to Store operations and management and may not engage in any other business or activity that requires substantial management responsibility or time commitment. We must approve your

District Manager as meeting our qualifications for the position. If your District Manager ceases to serve in, or no longer qualifies for, the position, you must designate a replacement District Manager within 30 days. Your replacement District Manager must meet the same criteria as your preceding District Manager.

If the franchisee is a business entity, each Owner must sign a Guaranty and Personal Undertaking substantially in the form attached as Attachment B-1 to the Franchise Agreement. Any person we designate, including but not limited to spouses of Owners, and any individual who attends our initial training program, including your District Manager and/or your Store Manager, must sign a confidentiality and noncompetition agreement substantially in the form attached as Attachment B-2 to the Franchise Agreement. The term "Owner" means each individual or entity holding a beneficial ownership in the franchisee. It includes all current and future shareholders of a corporation, all current and future members of a limited liability company, all current and future general and limited partners of a limited partnership, and the grantor and current or future trustee of the trust.

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

You must offer and sell all menu items that we require, and only those menu items that we have approved, and in the method or manner we determine, including dine-in, carry-out, and catering. You must prepare, package, and serve all menu items according to our recipes, standards, and procedures for preparation, presentation, and service as communicated to you from time to time via the Manual or other written directives. Our standards and procedures may include, without limitation, adherence to recipes (including use of prescribed ingredients and prescribed measure of ingredients), use of containers and paper goods bearing the Marks, packaging procedures, product holding times, and other standards for displaying for sale menu items and other merchandise. We may add, eliminate, or modify authorized goods and services, in our sole discretion, including but not limited to limiting the geographical area in which you can provide catering services. There are no contractual limitations on our rights to make these changes.

You must participate in all market research programs that we require, which includes test-marketing new products, purchasing a reasonable quantity of new products for test-marketing, and promoting the sale of the new products. You must provide us with timely reports and test results for all such programs.

You may not co-brand with another concept, or offer or provide catering or delivery services from a cart, kiosk, or food truck/vehicle without our prior written consent. You may not ship SUBMARINA® products, regardless of the destination, without our prior written consent, nor distribute SUBMARINA® products through wholesale channels, such as supermarkets, convenience stores, or other retailers, or through food service providers such as commissaries or airlines through in-flight services.

We have the right to establish maximum, minimum, or other retail pricing requirements to the extent permitted by law.

You may not permit in the Store any vending, game or gaming machines, payphones, automatic teller machines, Internet kiosks, or other mechanical or electrical devices, except for those we require or approve.

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

These tables list certain important provisions of the Franchise Agreement and related agreements. You should read these provisions in the Franchise Agreement attached to this disclosure document.

Franchise Agreement

Provisions	Section in Franchise Agreement	Summary
a. Length of the franchise term	Sections 2.1.	The Initial Term is 10 years.
b. Renewal or extension of the term	Section 2.2.	If you are in good standing, you can renew for two additional, consecutive, five-year terms.
c. Requirements for franchisee to renew or extend	Section 2.2.	<p>Your renewal right permits you to remain as a franchisee after the initial term of your Franchise Agreement expires. However, to remain a franchisee, you must meet all required conditions to renew, including signing our then-current form of Franchise Agreement, which may be materially different than the form attached to this disclosure document.</p> <p>Other requirements are: You must have complied with your obligations during the Term; satisfied all monetary obligations to us; provided us with your notice of intent to renew; not be in default under the Franchise Agreement or any other agreements; demonstrate that you have the right to remain in possession of the Store premises; must, at our request, renovate or modernize your Store to comply with our then-current standards for a new SUBMARINA® Store; comply with the then-current qualifications and training requirements; pay the Renewal Fee and each Owner must sign a general release.</p>
d. Termination by franchisee	Not applicable	Not applicable.
e. Termination by franchisor without cause	Not applicable	Not applicable.

Provisions	Section in Franchise Agreement	Summary
f. Termination by franchisor with cause	Sections 13.1., 13.2., 13.3., 13.4., 13.5., and 13.6.	We can terminate if you materially default under your Franchise Agreement, any other individual Franchise Agreement, or any other agreement between you and us. In the event of the death or permanent incapacity of an owner, we may terminate if you fail to adhere to the applicable transfer requirements.
g. “Cause” defined – curable defaults	Sections 13.3., 13.4., 13.5., and 13.6.	You have 10 days to cure non-payment of fees, 30 days to cure non-compliance with laws and defaults not listed in Sections 13.1. and 13.2., and in the case of a breach or default in the performance of your obligations under any other agreement between you and us or any of our affiliates (cross-default), the notice and cure provisions of the other agreement will control. You have six months to transfer the interest of an owner in the event of death or permanent incapacity.

Provisions	Section in Franchise Agreement	Summary
h. “Cause” defined – non-curable defaults	Sections 13.1. and 13.2.	Non curable defaults: bankruptcy, foreclosure, insolvency, failure to successfully complete training, abandonment of your Store, failure to maintain the right to operate the Store, failure to relocate and open, or reopen, your Store if closed due to an event of Force Majeure, repeated defaults, even if cured, plea of no contest or conviction of a felony, unapproved transfer or attempt to transfer, failure to comply with confidentiality and noncompetition requirements, misrepresentations in your franchise application, failure to comply with Crisis Management Event procedures, understating your Gross Sales or required payments, poor operations that lead to an imminent threat to public health or safety, knowingly maintaining false books or records, offering unapproved products or services, purchasing products from unapproved suppliers, failure to pass two or more quality assurance inspections within any rolling 12-month period, violation of Store operations policies within any rolling 12-month period, failure to participate in advertising or marketing programs, failure to maintain required hours two or more times within any rolling 12-month period, or we deliver three or more notices of default to you in any rolling 12-month period.
i. Franchisee’s obligations on termination/nonrenewal	Article 14	You must cease use of our trademarks, de-identify, pay all amounts due to us, and return the Manual to us. We may, at our option, assume all telephone numbers for the Store. We may, at our option, assume your lease and purchase certain Store assets. You must, at our option, cancel or assign to us your rights to any Internet Websites or Web pages or email addresses which contain our Marks. See also “r” below.
j. Assignment of contract by franchisor	Section 12.1.	No restriction on our right to assign.
k. “Transfer” by franchisee – defined	Sections 12.2., 12.3., 12.4., 12.5., 12.6., and 12.7.	Includes transfer of the Franchise Agreement, changes in ownership of the franchisee entity, transfers of assets, and private and public offerings.

Provisions	Section in Franchise Agreement	Summary
1. Franchisor approval of transfer by franchisee	Sections 12.2., 12.3., and 12.4.	Transfers require our prior written consent, which will not be unreasonably withheld. However, transfers that do not result in a change of control of you may, subject to certain conditions described in the Franchise Agreement, be completed without our prior written consent, but you must provide us notice.
m. Conditions for franchisor approval of transfer	Sections 12.2., 12.3., and 12.4.	<p>Transfer for Convenience: new business entity formed solely to operate Store; you provide us required Business Entity formation documents; you are in compliance with your Franchise Agreement and all other agreements with us; you pay our reasonable attorneys' fees.</p> <p>Transfer of Non-Controlling Interest: you provide us notice; you are in compliance with your Franchise Agreement and all other agreements with us; you sign an amendment that reflects the ownership changes; each new owner signs a guarantee; you pay our reasonable attorneys' fees; and you and each remaining owner signs a general release.</p> <p>Transfer of Franchised Business or Controlling Interest: you provide us notice and transfer documents; you are in compliance with your Franchise Agreement and all other agreements with us and you pay us all monies owed; new franchisee must qualify, complete training, sign a new Franchise Agreement in our then-current form; you or new franchisee must refurbish the Store and pay the transfer fee; additional requirements apply to business entities. (See also "i" below).</p>
n. Franchisor's right of first refusal to acquire franchisee's business	Section 12.8.	We can match any bona fide offer for your business.
o. Franchisor's option to purchase your business	Section 14.4.	We have the option to purchase some or all of your equipment, furnishings and fixtures on expiration or termination of your Franchise Agreement, at their then-current fair market value.

Provisions	Section in Franchise Agreement	Summary
p. Death or disability of franchisee	Section 12.9.	Same requirements as for transfer in "m" above, except there is no transfer fee and we do not have right of first refusal. If your interest is not transferred within six months following your (or a major member, partner, or shareholder's) death or legal incapacity, your Franchise Agreement may be terminated.
q. Non-competition covenants during the term of the franchise	Section 15.1.	Neither you nor your owners may own, maintain, advise, operate, engage in, be employed by, make loans to, or have any interest in or relationship or association with any fast casual or quick service store that offers as a primary menu item or mix of menu items sandwiches and related food items at any location within the U.S., its territories or commonwealths, or any other country, province, state or geographic area in which we or our affiliates have used, sought registration of or registered the Marks or similar marks or operate or license others to operate a business under the Marks or similar marks; you may not divert any present or prospective customer of ours to a competitor.
r. Non-competition covenants after the franchise is terminated or expires	Section 15.2.	Neither you nor your owners may own, maintain, advise, operate, engage in, be employed by, make loans to, or have any interest in a fast casual or quick service store that offers as a primary menu item or mix of menu items sandwiches and related food items at your former Store location or within a one-mile radius of your former Store or within a one-mile radius of any other SUBMARINA® Store for a period of two years following expiration, termination, or transfer. If you are a multi-Store operator, this restriction does not affect your right to continue to operate your remaining Stores for which you have a valid Franchise Agreement with us.
s. Modification of the agreement	Sections 18.1. and 18.2.	Must be in writing and signed by all parties.

Provisions	Section in Franchise Agreement	Summary
t. Integration/merger clause	Sections 18.1. and 18.2.	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to state law). Any representations or promises outside of the disclosure document and the Franchise Agreement and other related written agreements between you and us may not be enforceable. Nothing in the Franchise Agreement or any other related written agreement is intended to disclaim representations made in the franchise disclosure document.
u. Dispute resolution by arbitration or mediation	Sections 19.2. and 19.3.	Claims, controversies, or disputes from or relating to the Franchise Agreement must be mediated, except for actions seeking injunctive relief and actions we bring which are related to or based on our Marks or Confidential Information or on your failure to pay fees. If the claims, controversies, or disputes are not resolved in mediation, they must be submitted for arbitration.
v. Choice of forum	Sections 19.2. and 19.3.	Mediation and arbitration at the AAA offices located in La Mesa, California, or the city where our principal business office is located at the time mediation and/or arbitration occurs. Venue for any other proceedings: the federal and state courts that service the county in which we maintain our principal business office (subject to applicable state law). See the State Specific Addenda attached to this disclosure document.
w. Choice of law	Section 19.1.	Subject to applicable state law, the Franchise Agreement is to be interpreted and construed under Texas law (without giving effect to any conflict of laws) except that any law regulating the offer or sale of franchises, business opportunities or similar interests or governing the relationship between us and you will not apply unless its jurisdictional requirements are met independently. See the State Specific Addenda attached to this disclosure document.

ITEM 18 PUBLIC FIGURES

We do not use any public figure to promote the franchise.

ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS

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

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Brian Kennedy, Submarina Franchise of California, LLC, 5454 Grossmont Center Drive, Suite A, La Mesa, California 91942; 760-717-2397, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20 OUTLETS AND FRANCHISEE INFORMATION

**Table No. 1
SYSTEMWIDE OUTLET SUMMARY
FOR YEARS 2021 TO 2023⁽¹⁾**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at End of Year	Net Change
Franchised	2021	11	11	0
	2022	11	11	0
	2023	11	10	-1
Company-Owned	2021	3	4	+1
	2022	4	4	0
	2023	4	4	0
Total Outlets	2021	14	15	+1
	2022	15	15	0
	2023	15	14	-1

Notes:

(1) Our fiscal year ends December 31 of each year.

Table No. 2
TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS
(OTHER THAN THE FRANCHISOR)
FOR YEARS 2021 TO 2023⁽¹⁾

State	Year	Number of Transfers
California	2021	1
	2022	4
	2023	3
Totals	2021	1
	2022	4
	2023	3

Notes:

(1) Our fiscal year ends December 31 of each year.

Table No. 3
STATUS OF FRANCHISED OUTLETS
FOR YEARS 2021 TO 2023⁽¹⁾

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of Year
California	2021	11	0	0	0	0	0	11
	2022	11	0	0	0	0	0	11
	2023	11	0	0	0	0	1	10
Totals	2021	11	0	0	0	0	0	11
	2022	11	0	0	0	0	0	11
	2023	11	0	0	0	0	1	10

Notes:

(1) Our fiscal year ends December 31 of each year.

Table No. 4
STATUS OF COMPANY-OWNED OUTLETS
FOR YEARS 2021 TO 2023⁽¹⁾

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of Year
California	2021	3	1	0	0	0	4
	2022	4	0	0	0	0	4
	2023	4	0	0	0	0	4
Totals	2021	3	1	0	0	0	4
	2022	4	0	0	0	0	4
	2023	4	0	0	0	0	4

Notes:

(1) Our fiscal year ends December 31 of each year.

Table No. 5
PROJECTED OPENINGS AS OF DECEMBER 31, 2023⁽¹⁾

State	Franchise Agreement Signed But Outlet Not Open	Projected New Franchised Outlets in Next Fiscal Year	Projected New Company owned Outlets in Next Fiscal Year
California	0	0	0
Totals	0	0	0

Notes:

(1) Our fiscal year ends December 31 of each year.

Exhibit D reflects the name of each of our franchisees and the address and telephone numbers of their Stores as of December 31, 2023. Exhibit D also reflects the name, city, state, and current business (or if unknown, home) telephone number of every franchisee who ceased to do business under the Franchise Agreement or had an outlet terminated, canceled, not renewed, or transferred during the last fiscal year, or who has not communicated with us within 10 weeks of the date of this disclosure document.

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

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.

Currently, there are no trademark specific franchisee associations.

ITEM 21

Attached as Exhibit A are our audited financial statements as of and for the periods ending December 31, 2023, 2022 and 2021.

ITEM 22
CONTRACTS

Attached to this disclosure document are the following contracts and their attachments:

Attached as Exhibit B is our current form of Franchise Agreement with all Attachments.

Attached as Exhibit C is our current form of General Release (sample form).

ITEM 23
RECEIPTS

The last two pages of this disclosure document are detachable duplicate Receipts. Please sign and date both copies of the Receipt. Keep one signed copy of the Receipt for your file and return to us the other signed copy of the Receipt. The Receipt contains the names of our franchise sellers or brokers.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
STATE-SPECIFIC ADDENDA

CALIFORNIA

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

The California Corporations Code, Section 31125, requires that we give you a disclosure document, approved by the Department of Financial Protection and Innovation, prior to solicitation of a proposed material modification of your Franchise Agreement.

The following is added to Item 3 of the disclosure document:

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

Item 17 of the disclosure document is supplemented by the following:

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

You must sign a release if you renew or transfer your franchise. California Corporations Code voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 20000 through 20043).

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

Certain liquidated damages clauses are unenforceable under California Civil Code Section 1671.

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

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 by any franchisor, franchise seller, or other person acting on behalf of franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

Our Website can be found at www.submarina.com. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION at <https://dfpi.ca.gov/>

EXHIBIT A
SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE DISCLOSURE DOCUMENT

FINANCIAL STATEMENTS

SUBMARINA FRANCHISE OF CALIFORNIA, LLC

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2023

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
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DECEMBER 31, 2023

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To the Member
Submarina Franchise of California, LLC
La Mesa, California

Opinion

We have audited the accompanying financial statements of Submarina Franchise of California, LLC (a Texas limited liability company), which comprise the balance sheet as of December 31, 2023, and the related statements of income and retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Submarina Franchise of California, LLC as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 Submarina Franchise of California, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Submarina Franchise of California, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 Submarina Franchise of California, LLC'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 Submarina Franchise of California, LLC's ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules I through III are presented for the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Covell, Jani & Pasch LLP

Escondido, California
February 27, 2024

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
BALANCE SHEET
DECEMBER 31, 2023

ASSETS

CURRENT ASSETS

Cash	\$ 211,314
Royalty fees receivable	23,899
Brand development fund fees receivable	7,948
Related party receivable, current portion	2,624
TOTAL CURRENT ASSETS	<u>245,785</u>

OTHER ASSETS

Related party receivable, long-term portion	173,000
Member receivable	<u>1,571,172</u>
TOTAL OTHER ASSETS	<u>1,744,172</u>

TOTAL ASSETS

\$ 1,989,957

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES

Gift cards outstanding	\$ 21,768
Long-term debt, current portion	<u>2,828</u>
TOTAL CURRENT LIABILITIES	<u>24,596</u>

LONG-TERM LIABILITIES

Long-term debt, noncurrent portion	156,960
TOTAL LONG-TERM LIABILITIES	<u>156,960</u>

TOTAL LIABILITIES

181,556

MEMBER'S EQUITY

Retained earnings	<u>1,808,401</u>
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TOTAL MEMBER'S EQUITY	<u>1,808,401</u>
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TOTAL LIABILITIES AND MEMBER'S EQUITY

\$ 1,989,957

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2023

REVENUE		
Brand development fund revenue	\$ 228,592	28%
Royalty revenue	565,831	69%
Rebate revenue	24,137	3%
TOTAL REVENUE	<u>818,560</u>	100%
GENERAL AND ADMINISTRATIVE EXPENSES	<u>(143,660)</u>	-18%
EXPENSES FOR OWNER BENEFIT	<u>(107,976)</u>	-13%
BRAND DEVELOPMENT EXPENSES	<u>(111,894)</u>	-14%
OTHER INCOME (EXPENSES)		
Interest expense	<u>(6,383)</u>	-1%
TOTAL OTHER INCOME (EXPENSES)	<u>(6,383)</u>	-1%
INCOME BEFORE TAX	448,647	55%
INCOME TAX PROVISION	<u>(800)</u>	0%
NET INCOME	<u>447,847</u>	55%
RETAINED EARNINGS, BEGINNING	1,414,554	
DISTRIBUTIONS	<u>(54,000)</u>	-7%
RETAINED EARNINGS, ENDING	<u>\$ 1,808,401</u>	

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ <u>447,847</u>
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
(Acrease) decrease in royalty fees receivable	(1,474)
(Acrease) decrease in brand development fund fees receivable	(473)
Increase (decrease) in gift cards outstanding	3,637
Increase (decrease) in accrued liabilities	(4,030)
Increase (decrease) in income tax payable	(606)
TOTAL ADJUSTMENTS	<u>(2,946)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>444,901</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash paid to related parties	(80,624)
(Acrease) decrease in receivable from member	<u>(267,128)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	
<u>(347,752)</u>	

CASH FLOWS FROM FINANCING ACTIVITIES

Cash paid on long-term debt	(3,197)
Distributions paid to member	<u>(54,000)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	
<u>(57,197)</u>	
NET INCREASE (DECREASE) IN CASH	
39,952	
CASH AND EQUIVALENTS, BEGINNING OF YEAR	
<u>171,362</u>	
CASH AND EQUIVALENTS, END OF YEAR	
<u>\$ 211,314</u>	

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

CASH PAID DURING THE YEAR FOR:

Interest expense	\$ <u>6,383</u>
Income tax	<u>\$ 800</u>

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

A. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Submarina Franchise of California, LLC ("the Company") is a limited liability company registered in the state of Texas. The sole member of the Company is California Subbros, Inc. ("the Member").

The Company was formed on July 12, 2017 by Jeffrey Sinelli ("the Third Party"). In July 2017, the Company acquired the assets of Submarina, Inc. out of bankruptcy. On October 6, 2017, California Subbros, Inc. purchased the Company from the Third Party.

The Company was formed for the purpose of granting franchisees the right to operate sandwich shops offering submarine style sandwiches using hand-sliced-to-order meats and cheeses served on artisan breads that are baked fresh daily as well as side items, soft drinks, chips and related items under the SUBMARINA® or SUBMARINA CALIFORNIA SUBS® trade name and business system ("SUBMARINA Store" or "Store").

Adoption of New Accounting Standard

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13" or "ASC 326"). ASU 2016-13 revises the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected. During 2019, the FASB issued additional ASUs amending certain aspects of ASU 2016-13.

On January 1, 2023, the Company adopted the new accounting standard and all of the related amendments using the modified retrospective method. There were no adjustments made by applying the new credit loss standard due to the immaterial effect on the financial statements

Basis of Accounting

The Company uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Under this method, revenue is recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

The Company considers instruments purchased with a fixed maturity date of three months or less to be cash equivalents for the purposes of the statement of cash flows.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

A. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, of which their current carrying amounts approximate fair market value as of December 31, 2023.

Receivables

Accounts receivable consist of royalty and brand development fees based on a percentage of sales that have been earned as part of the franchise operating agreement. Normal accounts receivable are due 7 days after the processing of sales totals. Receivables past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific customer circumstances.

No allowance for uncollectible accounts receivable has been reflected in the financial statements, as management believes all accounts to be collectible and there has been no significant history of bad debt write off.

Franchising and Revenue Recognition

The Company executes franchise agreements that set the terms of its arrangement with each franchisee. The franchise agreements require the franchisee to pay an initial, non-refundable fee ranging from \$20,000 to \$25,000 and continuing fees based upon a percentage of sales. Subject to the Company's approval and payment of a renewal fee, a franchisee may generally renew its agreement upon its expiration. Direct costs of sales and servicing of franchise agreements are charged to general and administrative expenses as incurred.

When an individual franchise is sold, the Company agrees to provide certain services to the franchisee, including site selection, training, systems implementation, and design of a quality control program. The Company recognizes initial franchise fee revenue over the term of the franchise agreement and renewal period. No franchise fees were collected in the year ended December 31, 2023. There was no deferred revenue at December 31, 2023.

The Company also receives continuing royalty and brand development fees from its franchisees and recognizes this revenue in the period earned.

For the year ended December 31, 2023, there were no new store leases signed and one store closure (non-renewal of a franchisee agreement).

Use of Estimates

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

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

A. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

Advertising costs are charged to operations when incurred. Advertising expense charged to brand development expenses for the year ended December 31, 2023 was \$23,656.

Gift Cards

The Company sells gift cards to its customers at its franchise locations that may be used at any location. The gift cards do not have an expiration date. Revenue is recognized and the liability is relieved when: (a) the gift card is redeemed by the customer or (b) the likelihood of the gift card being redeemed by the customer is remote (“breakage”) and the Company determines that it does not have a legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. The Company will determine its breakage rate based upon historical redemption patterns. Gift card breakage income is recorded as a reduction in operating expenses on the statement of income. As of December 31, 2023, no breakage has been calculated.

Franchise Agreement Costs

Costs incurred in obtaining a contract that would not have been incurred had that individual contract not been obtained are recognized as an asset and amortized over the term of the agreement. No such costs were incurred for the year ended December 31, 2023, nor were any incurred in prior years that required adjustment in the financial statements.

Combined Contracts

ASU No-2014-09 requires the Company to evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. The Company believes the promises in the franchise agreement should be combined and accounted for as a single contract.

Leases

The Company leases office space. 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 leases are included in operating lease right-of-use (“ROU”) assets, other current liabilities, and operating lease liabilities in the balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in the balance sheets. For the year ended December 31, 2023, the Company did not have any long-term operating or finance lease obligations.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

A. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Restricted for Brand Development Fund

Restricted cash consists of contributions to the brand development fund by the Company's franchisees. These funds are collected in accordance with the franchise operating agreements which provide for a system-wide marketing assessment of up to two percent of the franchisees' gross receipts payable to a system-wide brand development fund. The Company administers the fund and uses the fund to satisfy the cost of producing, maintaining, administering and directing consumer advertising and development costs. In addition to these expenses, the Company may use brand development fund receipts to reimburse the Company for personnel and other administrative and overhead costs the Company may incur related to administering the brand development fund.

Income Tax

The Company is a single member LLC as described in the organization and operations section above.

Accordingly, the Company's member reports the Company's taxable income on its income tax returns. The Company is disregarded for federal income tax purposes.

The Company is liable for a California annual minimum tax. The Company files Texas franchise tax returns annually.

B. CASH

Cash consists of the following at December 31, 2023:

Restricted	
Brand development fund	\$ 128,566
Gift cards outstanding	<u>21,768</u>
Total restricted cash	150,334
Unrestricted	<u>60,980</u>
Total cash	<u>\$ 211,314</u>

C. CASH FLOW INFORMATION

The Company did not have non-cash investing and financing transactions during the year ended December 31, 2023.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

D. GIFT CARDS OUTSTANDING

Gift card activity for the year ended December 31, 2023 was as follows:

Beginning balance	\$ 18,131
Sold	15,783
Redeemed	<u>(12,146)</u>
Total gift cards outstanding	<u>\$ 21,768</u>

E. RELATED PARTY TRANSACTIONS

Member Receivable

On October 6, 2017 in connection with the purchase of the Company, the Member executed a promissory note in the amount of \$2,850,000 in favor of the Third Party (as described in Note A). The note is guaranteed by the shareholders of the Member, and the Company has guaranteed a security interest in and to all right, title and interest of the Company assets. The loan is payable in monthly installments including interest at 5%, maturing in October 2032. As of December 31, 2023, the amount owed on the note was \$1,868,094. For the year ended December 31, 2023, the Company paid the principal and interest due on the note described above in the amount of \$264,480. The total amount paid since 2017 is \$1,564,692, which is included in the total receivable from the Member as of December 31, 2023.

In accordance with generally accepted accounting principles, the Company is the primary beneficiary and the Member is the variable interest entity. Management has elected not to consolidate the financial statements of the two entities

The Company paid taxes on behalf of the Member from 2021 through 2023. The amount due to the Company for these payments is \$6,480 as of December 31, 2023.

Related Parties Receivables

The Company loaned cash to the University City franchise location (see Fees Paid section below) in order to assist the store with its initial expenses in 2021 and 2022 in the amount of \$95,000 and in 2023 for the amount of \$78,000 for assistance with general operating losses. The amount receivable at December 31, 2023 was \$173,000. The Company does not expect to collect the amount receivable in 2024.

Due to a banking error in 2023, there is a receivable from the Rancho Berardo franchise location (see Fees Paid section below) in the amount of \$2,624. The Company expects to collect the amount receivable in 2024.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

E. RELATED PARTY TRANSACTIONS (CONTINUED)

Rent Expense

The Company rents office space from a shareholder of the member on a month-to-month basis. The monthly rent is \$963. The rent expense for the year ended December 31, 2023 was \$11,550.

Fees Paid

California Subbros, Inc. has two shareholders that are officers of the Company. The officers are also shareholders of Subbros, Inc. and SD Subbros, Inc. (affiliated companies). Subbros, Inc. operates separate franchises in La Mesa and Rancho Bernardo, and SD Subbros, Inc. operates separate franchises in Santee and University City. The four franchises are considered affiliated company owned stores and are not required to pay the fees the franchised businesses are required to pay. They do so, however, as a matter of good business practice. The amount of royalty and brand development fund fees paid by Subbros, Inc. and SD Subbros, Inc. to the Company for the year ended December 31, 2023 was \$273,795. The amount of royalty and brand development fund fees included in receivables at December 31, 2023 was \$25,281.

F. LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2023:

Note payable (Economic Injury Disaster Loan), collateralized by all assets, payable in monthly installments of \$731 beginning November 2022, including interest at 3.75%, final payment due in June 2050. The balance due includes accrued interest.	<u>\$ 159,788</u>
Total long-term debt	159,788
Less current portion	<u>(2,828)</u>
Noncurrent portion	<u>\$ 156,960</u>

Annual maturities of long-term debt outstanding at December 31 are as follows:

2024	\$ 2,828
2025	2,936
2026	3,048
2027	3,164
2028	3,285
2029 and thereafter	<u>144,527</u>
	<u>\$ 159,788</u>

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

F. LONG-TERM DEBT (CONTINUED)

On March 12, 2020, the SBA extended the deferment period for EIDL loans from 12 months to 24 months and on March 15, 2022, extended the deferment period for another 6 months. Borrowers may voluntarily continue to make payments during the deferment, as interest will continue to accrue on the outstanding loan balance during this period. Any change of terms to the loan as a result of the subsequent extension have not been calculated in the annual maturities described above.

G. INCOME TAX

The current year provision for income tax is comprised of the following at December 31, 2023:

State income tax provision	\$ 800
Less estimates paid	<u>(800)</u>
Income tax (prepaid) payable	<u><u>\$ -</u></u>

Generally, certain tax authorities may examine the Company's tax returns for four years from the filing date.

H. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits in banks and other financial institutions.

The Company maintains cash and cash equivalents with a major bank. Accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At December 31, 2023, the Company did not have cash balances with the bank in excess of the FDIC coverage.

I. SALES TO MAJOR CUSTOMERS

For the year ended December 31, 2023, the Company had revenue from three major owners of franchises that exceeded 10% of total revenue. Revenue from these owners and their accounts receivable balances at December 31, 2023 were as follows:

	<u>Revenue</u>	<u>Accounts Receivable</u>
Owner A	\$ 205,567	\$ 16,631
Owner B	\$ 93,509	\$ 8,651

Owners A and B are the affiliated companies discussed in Note E in the Fees Paid section.

While revenues from certain contracts represent more than 10% of total revenues, the non-repetitive nature of the Company's business precludes an economic dependence on any individual customer.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

J. DISSAGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table disaggregates the Company's revenue based on the timing of satisfaction of performance obligations for the year ended December 31, 2023:

Performance obligations satisfied at a point in time	\$ 818,560
Performance obligations satisfied over time	-
Total contract revenue	<u>\$ 818,560</u>

K. COMPENSATED ABSENCES

Employees of the Company are entitled to paid vacation and sick days off depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences when actually paid to employees.

L. PENSION PLAN

The Company has a pension plan in which all employees meeting minimum age and service requirements are eligible to participate. Under terms of the adoption agreement, employees may contribute up to 90% of their eligible earnings. Employees are 100% vested in their account balances. The Company makes a safe harbor matching contribution for employees equal to 100% of elective deferrals up to 4% of eligible earnings. The Company provided matching contributions that totaled \$3,880 for the year ended December 31, 2023. Administrative costs paid were \$6,141 for the year ended December 31, 2023.

M. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through February 27, 2024, the date which the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to December 31, 2023 that would require adjustment to, or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

SCHEDULE I

GENERAL AND ADMINISTRATIVE EXPENSES

Bank fees	\$ 7,779	1%
Computer expense	1,727	0%
Dues and subscriptions	8,802	1%
Education expense	615	0%
Insurance	569	0%
Legal and accounting fees	22,000	3%
Licenses and permits	300	0%
Office supplies	228	0%
Payroll services	1,149	0%
Pension expense	10,021	1%
Postage and delivery	15	0%
Printing and reproduction	344	0%
Rent	11,550	1%
Repairs and maintenance	556	0%
Telephone and internet	1,050	0%
Uniforms	1,035	0%
Wages and related expenses	<u>75,920</u>	9%
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 143,660</u>	18%

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
EXPENSES FOR OFFICER BENEFIT
FOR THE YEAR ENDED DECEMBER 31, 2023**

SCHEDULE II

EXPENSES FOR OFFICER BENEFIT

Automobile expense	\$ 12,172	1%
Cell phone expense	7,804	1%
Health insurance	62,995	8%
Officer payroll tax expense	2,005	0%
Officer salaries	<u>23,000</u>	3%
TOTAL EXPENSES FOR OFFICER BENEFIT	<u>\$ 107,976</u>	13%

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
BRAND DEVELOPMENT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

SCHEDULE III

BRAND DEVELOPMENT EXPENSES

Administrative costs	\$ 40,000	3%
Advertising	23,656	5%
Infrastructure expenses	16,033	2%
Marketing	950	0%
Printing	<u>31,255</u>	4%
 TOTAL BRAND DEVELOPMENT EXPENSES	 <u>\$ 111,894</u>	14%

SUBMARINA FRANCHISE OF CALIFORNIA, LLC

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2022
(RESTATED)

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
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To the Member
Submarina Franchise of California, LLC
La Mesa, California

Opinion

We have audited the accompanying financial statements of Submarina Franchise of California, LLC (a Texas limited liability company), which comprise the balance sheet as of December 31, 2022, and the related statements of income and retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Submarina Franchise of California, LLC as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 Submarina Franchise of California, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Submarina Franchise of California, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 Submarina Franchise of California, LLC'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 Submarina Franchise of California, LLC's ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules I through III are presented for the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matters

As discussed in Note N, the financial statements were restated to correct a clerical error in the description of two accounts in the current liabilities section of the balance sheet. As a result of the correction described in Note N, we believe the financial statements as of December 31, 2022 are in accordance with accounting principles generally accepted in the United States of America.

Covell, Jani & Pasch LLP

Escondido, California

March 17, 2023, except for Note N as to which the date is March 28, 2023.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
BALANCE SHEET
DECEMBER 31, 2022
(RESTATED)

ASSETS

CURRENT ASSETS

Cash	\$ 171,362
Royalty fees receivable	22,425
Brand development fund fees receivable	7,475
TOTAL CURRENT ASSETS	<u>201,262</u>

OTHER ASSETS

Related party receivable, long-term portion	95,000
Member receivable	<u>1,304,044</u>
TOTAL OTHER ASSETS	<u>1,399,044</u>

TOTAL ASSETS

\$ 1,600,306

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES

Accrued payroll liabilities	\$ 4,030
Tax payable	606
Gift cards outstanding	18,131
Long-term debt, current portion	2,706
TOTAL CURRENT LIABILITIES	<u>25,473</u>

LONG-TERM LIABILITIES

Long-term debt, noncurrent portion	160,279
TOTAL LONG-TERM LIABILITIES	<u>160,279</u>

TOTAL LIABILITIES

185,752

MEMBER'S EQUITY

Retained earnings	<u>1,414,554</u>
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TOTAL MEMBER'S EQUITY	<u>1,414,554</u>
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TOTAL LIABILITIES AND MEMBER'S EQUITY

\$ 1,600,306

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2022

REVENUE		
Brand development fund revenue	\$ 283,772	32%
Royalty revenue	581,905	65%
Rebate revenue	<u>31,390</u>	3%
TOTAL REVENUE	<u>897,067</u>	100%
 GENERAL AND ADMINISTRATIVE EXPENSES		
 EXPENSES FOR OWNER BENEFIT	<u>(145,213)</u>	-16%
 BRAND DEVELOPMENT EXPENSES	<u>(104,863)</u>	-12%
 OTHER INCOME (EXPENSES)		
Interest expense	<u>(6,390)</u>	-1%
TOTAL OTHER INCOME (EXPENSES)	<u>(6,390)</u>	-1%
 INCOME BEFORE TAXES	520,448	58%
 INCOME TAX PROVISION	<u>(3,300)</u>	
 NET INCOME	<u>517,148</u>	58%
 RETAINED EARNINGS, BEGINNING	1,017,406	
 DISTRIBUTIONS	<u>(120,000)</u>	-13%
 RETAINED EARNINGS, ENDING	<u>\$ 1,414,554</u>	

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 517,148
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Accrued interest	5,148
(Increase) decrease in royalty fees receivable	(7,252)
(Increase) decrease in brand development fund fees receivable	(2,424)
Increase (decrease) in gift cards outstanding	3,209
Increase (decrease) in accrued liabilities	(44,156)
Increase (decrease) in income taxes payable	606
TOTAL ADJUSTMENTS	<u>(44,869)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>472,279</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash received on related party receivable	10,411
Cash paid to related party	(70,000)
(Increase) decrease in receivable from member	<u>(266,480)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	
	<u>(326,069)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Cash paid on long-term debt	(489)
Distributions paid to member	<u>(120,000)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	
	<u>(120,489)</u>
NET INCREASE (DECREASE) IN CASH	25,721
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>145,641</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 171,362</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

CASH PAID DURING THE YEAR FOR:

Interest expense	\$ 1,242
Income tax	<u>\$ 2,694</u>

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

A. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Submarina Franchise of California, LLC (“the Company”) is a limited liability company registered in the state of Texas. The sole member of the Company is California Subbros, Inc. (“the Member”).

The Company was formed on July 12, 2017 by Jeffrey Sinelli (“the Third Party”). In July 2017, the Company acquired the assets of Submarina, Inc. out of bankruptcy. On October 6, 2017, California Subbros, Inc. purchased the Company from the Third Party.

The Company was formed for the purpose of granting franchisees the right to operate sandwich shops offering submarine style sandwiches using hand-sliced-to-order meats and cheeses served on artisan breads that are baked fresh daily as well as side items, soft drinks, chips and related items under the SUBMARINA® or SUBMARINA CALIFORNIA SUBS® trade name and business system (“SUBMARINA Store” or “Store”).

New Accounting Standards/Change in Accounting Principles

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes existing guidance for accounting for leases under Topic 840, Leases. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; ASU 2018-11, Leases (Topic 842): Targeted Improvements; ASU 2018-20, Narrow-scope Improvements for Lessors; and ASU 2019-01, Leases (Topic 842): Codification Improvements. The most significant change in the new leasing guidance is the requirement to recognize right-to-use (“ROU”) assets and lease liabilities for operating leases on the balance sheet.

The Company adopted FASB Topic 842, Leases, using the modified retrospective approach with January 1, 2022 as the date of initial adoption (effective date method) and utilized all of the available practical expedients. The Company has elected to apply the short-term lease exception to all leases with a term of one year or less and therefore the adoption did not result in any changes to the Company’s balance sheet as no recognition of ROU assets and lease liabilities for operating leases was required.

Basis of Accounting

The Company uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Under this method, revenue is recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

The Company considers instruments purchased with a fixed maturity date of three months or less to be cash equivalents for the purposes of the statement of cash flows.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

A. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, of which their current carrying amounts approximate fair market value as of December 31, 2022.

Receivables

Accounts receivable consist of royalty and brand development fees based on a percentage of sales that have been earned as part of the franchise operating agreement. Normal accounts receivable are due 7 days after the processing of sales totals. Receivables past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific customer circumstances.

No allowance for uncollectible receivables has been reflected in the financial statements, as management believes all accounts to be collectible.

Franchising and Revenue Recognition

The Company executes franchise agreements that set the terms of its arrangement with each franchisee. The franchise agreements require the franchisee to pay an initial, non-refundable fee ranging from \$20,000 to \$25,000 and continuing fees based upon a percentage of sales. Subject to the Company's approval and payment of a renewal fee, a franchisee may generally renew its agreement upon its expiration. Direct costs of sales and servicing of franchise agreements are charged to general and administrative expenses as incurred.

When an individual franchise is sold, the Company agrees to provide certain services to the franchisee, including site selection, training, systems implementation, and design of a quality control program. The Company recognizes initial franchise fee revenue over the term of the franchise agreement and renewal period. No franchise fees were collected in the year ended December 31, 2022. There was no deferred revenue at December 31, 2022.

The Company also receives continuing royalty and brand development fees from its franchisees and recognizes this revenue in the period earned.

For the year ended December 31, 2022, there were no new store leases signed and no non-renewals of a franchisee agreement.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense charged to brand development expenses for the year ended December 31, 2022 was \$25,519.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

A. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Gift Cards

The Company sells gift cards to its customers at its franchise locations that may be used at any location. The gift cards do not have an expiration date. Revenue is recognized and the liability is relieved when: (a) the gift card is redeemed by the customer or (b) the likelihood of the gift card being redeemed by the customer is remote (“breakage”) and the Company determines that it does not have a legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. The Company will determine its breakage rate based upon historical redemption patterns. Gift card breakage income is recorded as a reduction in operating expenses on the statement of income. As of December 31, 2022, no breakage has been calculated.

Franchise Agreement Costs

Costs incurred in obtaining a contract that would not have been incurred had that individual contract not been obtained are recognized as an asset and amortized over the term of the agreement. No such costs were incurred for the year ended December 31, 2022, nor were any incurred in prior years that required adjustment in the financial statements.

Combined Contracts

ASU No-2014-09 requires the Company to evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. The Company believes the promises in the franchise agreement should be combined and accounted for as a single contract.

Cash Restricted for Brand Development Fund

Restricted cash consists of contributions to the brand development fund by the Company's franchisees. These funds are collected in accordance with the franchise operating agreements which provide for a system-wide marketing assessment of up to two percent of the franchisees' gross receipts payable to a system-wide brand development fund. The Company administers the fund and uses the fund to satisfy the cost of producing, maintaining, administering and directing consumer advertising and development costs. In addition to these expenses, the Company may use brand development fund receipts to reimburse the Company for personnel and other administrative and overhead costs the Company may incur related to administering the brand development fund.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

A. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Company leases office space. 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 leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in the balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in the balance sheets. For the year ended December 31, 2022, the Company did not have any long-term operating or finance lease obligations.

Income Tax

The Company is a single member LLC as described in the organization and operations section above.

Accordingly, the Company's member reports the Company's taxable income on its income tax returns. The Company is disregarded for federal income tax purposes.

The Company is liable for a California annual tax and fee based on their total income. The Company files Texas franchise tax returns annually.

B. CASH

Cash consists of the following at December 31, 2022:

Restricted	
Brand development fund	\$ 154,320
Gift cards outstanding	<u>18,131</u>
Total restricted cash	172,451
Unrestricted	<u>(1,089)</u>
Total cash	<u>\$ 171,362</u>

C. CASH FLOW INFORMATION

The Company did not have non-cash investing and financing transactions during the year ended December 31, 2022

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

D. GIFT CARDS OUTSTANDING

Gift card activity for the year ended December 31, 2022 was as follows:

Beginning balance	\$ 14,922
Sold	15,548
Redeemed	<u>(12,339)</u>
Total gift cards outstanding	<u>\$ 18,131</u>

E. RELATED PARTY TRANSACTIONS

Member Receivable

On October 6, 2017 in connection with the purchase of the Company, the Member executed a promissory note in the amount of \$2,850,000 in favor of the Third Party (as described in Note A). The note is guaranteed by the shareholders of the Member, and the Company has guaranteed a security interest in and to all right, title and interest of the Company assets. The loan is payable in monthly installments including interest at 5%, maturing in October 2032. As of December 31, 2022, the amount owed on the note was \$2,034,616. For the year ended December 31, 2022, the Company paid the principal and interest due on the note described above in the amount of \$264,480. The total amount paid since 2017 is \$1,300,212, which is the total receivable from the Member as of December 31, 2022.

In accordance with generally accepted accounting principles, the Company is the primary beneficiary and the Member is the variable interest entity. Management has elected not to consolidate the financial statements of the two entities

The Company paid taxes on behalf of the Member in 2021 and 2022. The amount due to the Company for these payments is \$3,832 as of December 31, 2022.

Related Party Receivables

The Company loaned cash to the University City franchise location in order to assist the store with its initial expenses in 2021 in the amount of \$25,000 and 2022 in the amount of \$70,000. The amount receivable at December 31, 2022 was \$95,000. The Company does not expect to collect the amount receivable in 2023.

Rent Expense

The Company rents office space from a shareholder of the member on a month-to-month basis. The monthly rent is \$963. The rent expense for the year ended December 31, 2022 was \$11,550.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

E. RELATED PARTY TRANSACTIONS (CONTINUED)

Fees Paid

California Subbros, Inc. has two shareholders that are officers of the Company. The officers are also shareholders of Subbros, Inc. and SD Subbros, Inc. (affiliated companies). Subbros, Inc. operates separate franchises in La Mesa and Rancho Bernardo, and SD Subbros, Inc. operates separate franchises in Santee and University City. The four franchises are considered affiliated company owned stores and are not required to pay the fees the franchised businesses are required to pay. They do so, however, as a matter of good business practice. The amount of royalty and brand development fund fees paid by Subbros, Inc. and SD Subbros, Inc. to the Company for the year ended December 31, 2022 was \$266,005. The amount of royalty and brand development fund fees included in receivables at December 31, 2022 was \$23,467.

F. LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2022:

Note payable (Economic Injury Disaster Loan), collateralized by all assets, payable in monthly installments of \$731 beginning November 2022, including interest at 3.75%, final payment due in June 2050. The balance due includes accrued interest.	<u>\$ 162,985</u>
Total long-term debt	162,985
Less current portion	<u>(2,706)</u>
Noncurrent portion	<u><u>\$ 160,279</u></u>

Annual maturities of long-term debt outstanding at December 31 are as follows:

2023	\$ 2,706
2024	2,810
2025	2,917
2026	3,028
2027	3,143
2028 and thereafter	<u>148,381</u>
	<u><u>\$ 162,985</u></u>

On March 12, 2020, the SBA extended the deferment period for EIDL loans from 12 months to 24 months and on March 15, 2022, extended the deferment period for another 6 months. Borrowers may voluntarily continue to make payments during the deferment, as interest will continue to accrue on the outstanding loan balance during this period. Any change of terms to the loan as a result of the subsequent extension have not been calculated in the annual maturities described above.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

G. INCOME TAX

The current year provision for income tax is comprised of the following at December 31, 2022:

State income tax provision	\$ 3,300
Less estimates paid	<u>(2,694)</u>
Income tax (prepaid) payable	<u><u>\$ 606</u></u>

Generally, certain tax authorities may examine the Company's tax returns for four years from the filing date.

H. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits in banks and other financial institutions.

The Company maintains cash and cash equivalents with a major bank. Accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At December 31, 2022, the Company did not have cash balances with the bank in excess of the FDIC coverage.

I. COMPENSATED ABSENCES

Employees of the Company are entitled to paid vacation and sick days off depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompany financial statements. The Company's policy is to recognize the costs of compensated absences when actually paid to employees.

J. SALES TO MAJOR CUSTOMERS

For the year ended December 31, 2022, the Company had revenue from three major owners of franchises that exceeded 10% of total net sales. Revenue from these owners and their accounts receivable balances at December 31, 2022 were as follows:

	<u>Revenue</u>	<u>Accounts Receivable</u>
Owner A	\$ 187,856	\$ 15,466
Owner B	\$ 130,700	\$ 1,248
Owner C	\$ 101,617	\$ 8,002

Owners A and C are the affiliated companies discussed in Note E in the Fees Paid section.

While revenues from certain contracts represent more than 10% of total revenues, the non-repetitive nature of the Company's business precludes an economic dependence on any individual customer.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

K. DISSAGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table disaggregates the Company's revenue based on the timing of satisfaction of performance obligations for the year ended December 31, 2022:

Performance obligations satisfied at a point in time	\$ 897,067
Performance obligations satisfied over time	-
Total contract revenue	<u>\$ 897,067</u>

L. PENSION PLAN

The Company has a pension plan in which all employees meeting minimum age and service requirements are eligible to participate. Under terms of the adoption agreement, employees may contribute up to 90% of their eligible earnings. Employees are 100% vested in their account balances. The Company makes a safe harbor matching contribution for employees equal to 100% of elective deferrals up to 4% of eligible earnings. The Company provided matching contributions that totaled \$3,967 for the year ended December 31, 2022. Administrative costs paid were \$564 for the year ended December 31, 2022.

M. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 17, 2023, the date which the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to December 31, 2022 that would require adjustment to, or disclosure in the financial statements.

N. CORRECTION TO ACCOUNT DESCRIPTIONS ON BALANCE SHEET (RESTATEMENT)

Subsequent to the issuance of the financial statements, it was noted that taxes payable was incorrectly labeled as gift cards outstanding and vice versa. The balance sheet has been corrected with no effect on current liabilities for the year ended December 31, 2022.

SUPPLEMENTARY INFORMATION

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

SCHEDULE I

GENERAL AND ADMINISTRATIVE EXPENSES

Bank fees	\$ 3,096	0%
Computer expense	5,616	1%
Dues and subscriptions	9,022	1%
Insurance	523	0%
Legal and accounting fees	19,405	2%
Licenses and permits	75	0%
Office supplies	988	0%
Payroll services	5,859	1%
Pension expense	4,531	1%
Rent	11,550	1%
Repairs and maintenance	306	0%
Telephone and internet	1,402	0%
Uniforms	1,572	0%
Wages and related expenses	<u>81,268</u>	9%
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 145,213</u>	16%

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
EXPENSES FOR OFFICER BENEFIT
FOR THE YEAR ENDED DECEMBER 31, 2022**

SCHEDULE II

EXPENSES FOR OFFICER BENEFIT

Automobile expense	\$ 11,985	1%
Cell phone expense	9,616	1%
Health insurance	54,162	6%
Officer payroll tax expense	2,235	0%
Officer salaries	26,500	3%
Travel	<u>365</u>	0%
TOTAL EXPENSES FOR OFFICER BENEFIT	<u>\$ 104,863</u>	12%

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
BRAND DEVELOPMENT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

SCHEDULE III

BRAND DEVELOPMENT EXPENSES

Administrative costs	\$ 50,000	3%
Advertising	25,519	6%
Infrastructure expenses	15,799	2%
Marketing	875	0%
Printing	<u>27,960</u>	3%
TOTAL BRAND DEVELOPMENT EXPENSES	<u>\$ 120,153</u>	13%

SUBMARINA FRANCHISE OF CALIFORNIA, LLC

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2021

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
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Independent Auditor's Report

To the Member
Submarina Franchise of California, LLC
La Mesa, California

Opinion

We have audited the accompanying financial statements of Submarina Franchise of California, LLC (a Texas limited liability company), which comprise the balance sheet as of December 31, 2021, and the related statements of income, and retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Submarina Franchise of California, LLC as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 Submarina Franchise of California, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Submarina Franchise of California, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 Submarina Franchise of California, LLC'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 Submarina Franchise of California, LLC's ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules I through III are presented for the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Covell, Jani & Pasch LLP

Escondido, California

March 26, 2022

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
BALANCE SHEET
DECEMBER 31, 2021

ASSETS

CURRENT ASSETS

Cash	\$ 145,641
Royalty fees receivable	15,173
Brand development fund fees receivable	5,051
Related party receivable, current portion	10,411
TOTAL CURRENT ASSETS	<u>176,276</u>

OTHER ASSETS

Related party receivable, long-term portion	25,000
Member receivable	1,037,564
TOTAL OTHER ASSETS	<u>1,062,564</u>

TOTAL ASSETS **\$ 1,238,840**

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES

Accrued expenses	\$ 42,965
Accrued payroll liabilities	5,220
Gift cards outstanding	14,922
TOTAL CURRENT LIABILITIES	<u>63,107</u>

LONG-TERM LIABILITIES

Long-term debt, noncurrent portion	<u>158,327</u>
TOTAL LONG-TERM LIABILITIES	<u>158,327</u>

TOTAL LIABILITIES **221,434**

MEMBER'S EQUITY

Retained earnings	<u>1,017,406</u>
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TOTAL MEMBER'S EQUITY	<u>1,017,406</u>
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TOTAL LIABILITIES AND MEMBER'S EQUITY **\$ 1,238,840**

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2021

REVENUE		
Brand development fund revenue	\$ 140,711	19%
Royalty revenue	572,718	78%
Rebate revenue	<u>24,750</u>	3%
TOTAL REVENUE	<u>738,179</u>	100%
GENERAL AND ADMINISTRATIVE EXPENSES	<u>(131,865)</u>	-18%
EXPENSES FOR OWNER BENEFIT	<u>(99,400)</u>	-13%
BRAND DEVELOPMENT EXPENSES	<u>(99,788)</u>	-14%
OTHER INCOME (EXPENSES)		
Interest expense	<u>(5,831)</u>	-1%
TOTAL OTHER INCOME (EXPENSES)	<u>(5,831)</u>	-1%
INCOME BEFORE TAXES	401,295	54%
INCOME TAX PROVISION		
Current year	<u>(3,300)</u>	0%
Prior year taxes paid	<u>(10,191)</u>	-1%
NET INCOME	387,804	53%
RETAINED EARNINGS, BEGINNING	818,602	
DISTRIBUTIONS	<u>(189,000)</u>	-26%
RETAINED EARNINGS, ENDING	<u>\$ 1,017,406</u>	

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 387,804
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Accrued interest	5,831
(Increase) decrease in royalty fees receivable	(2,512)
(Increase) decrease in brand development fund fees receivable	(831)
(Increase) decrease in prepaid franchise tax	3,033
Increase (decrease) in gift cards outstanding	4,699
Increase (decrease) in accrued liabilities	42,026
TOTAL ADJUSTMENTS	52,246
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	440,050

CASH FLOWS FROM INVESTING ACTIVITIES

Cash received on related party receivable	92,500
Cash paid to related party	(25,000)
(Increase) decrease in receivable from member	(266,312)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	
(198,812)	

CASH FLOWS FROM FINANCING ACTIVITIES

Distributions paid to member	(189,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(189,000)
NET INCREASE (DECREASE) IN CASH	52,238
CASH AND EQUIVALENTS, BEGINNING OF YEAR	93,403
CASH AND EQUIVALENTS, END OF YEAR	

\$ 145,641

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

CASH PAID DURING THE YEAR FOR:

Interest expense	\$ -
Income tax	\$ 16,984

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

A. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Submarina Franchise of California, LLC ("the Company") is a limited liability company registered in the State of Texas. The sole member of the Company is California Subbros, Inc. ("the Member").

The Company was formed on July 12, 2017 by Jeffrey Sinelli "the Third Party". In July 2017, the Company acquired the assets of Submarina, Inc. out of bankruptcy. On October 6, 2017, California Subbros, Inc. purchased the Company from the Third Party.

The Company was formed for the purpose of granting franchisees the right to operate sandwich shops offering submarine style sandwiches using hand-sliced-to-order meats and cheeses served on artisan breads that are baked fresh daily as well as side items, soft drinks, chips and related items under the SUBMARINA® or SUBMARINA CALIFORNIA SUBS® trade name and business system ("SUBMARINA Store" or "Store").

Basis of Accounting

The Company uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Under this method, revenue is recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

The Company considers instruments purchased with a fixed maturity date of three months or less to be cash equivalents for the purposes of the statement of cash flows.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, of which their current carrying amounts approximate fair market value as of December 31, 2021.

Receivables

Accounts receivable consist of royalty and brand development fees based on a percentage of sales that have been earned as part of the franchise operating agreement. Normal accounts receivable are due 7 days after the processing of sales totals. Receivables past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific customer circumstances.

No allowance for uncollectible receivables has been reflected in the financial statements, as management believes all accounts to be collectible.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

A. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Franchising and Revenue Recognition

The Company executes franchise agreements that set the terms of its arrangement with each franchisee. The franchise agreements require the franchisee to pay an initial, non-refundable fee ranging from \$25,000 to \$30,000 and continuing fees based upon a percentage of sales. Subject to the Company's approval and payment of a renewal fee, a franchisee may generally renew its agreement upon its expiration. Direct costs of sales and servicing of franchise agreements are charged to general and administrative expenses as incurred.

When an individual franchise is sold, the Company agrees to provide certain services to the franchisee, including site selection, training, systems implementation, and design of a quality control program. The Company recognizes initial franchise fee revenue over the term of the franchise agreement and renewal period. No franchise fees were collected in the year ended December 31, 2021. There was no deferred revenue at December 31, 2021.

The Company also receives continuing royalty and brand development fees from its franchisees and recognizes this revenue in the period earned.

For the year ended December 31, 2021, there was no new store leases signed and no non-renewals of a franchisee agreement.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense charged to brand development expenses for the year ended December 31, 2021 was \$15,496.

Use of Estimates

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

Gift Cards

The Company sells gift cards to its customers at its franchise locations that may be used at any location. The gift cards do not have an expiration date. Revenue is recognized and the liability is relieved when: (a) the gift card is redeemed by the customer or (b) the likelihood of the gift card being redeemed by the customer is remote ("breakage") and the Company determines that it does not have a legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. The Company will determine its breakage rate based upon historical redemption patterns. Gift card breakage income is recorded as a reduction in operating expenses on the statement of income. As of December 31, 2021, no breakage has been calculated.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

A. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Franchise Agreement Costs

Costs incurred in obtaining a contract that would not have been incurred had that individual contract not been obtained are recognized as an asset and amortized over the term of the agreement. No such costs were incurred for the year ended December 31, 2021, nor were any incurred in prior years that required adjustment in the financial statements.

Combined Contracts

ASU No-2014-09 requires the Company to evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. The Company believes the promises in the franchise agreement should be combined and accounted for as a single contract.

Cash Restricted for Brand Development Fund

Restricted cash consists of contributions to the brand development fund by the Company's franchisees. These funds are collected in accordance with the franchise operating agreements which provide for a system-wide marketing assessment of up to two percent of the franchisees' gross receipts payable to a system-wide brand development fund. The Company administers the fund and uses the fund to satisfy the cost of producing, maintaining, administering and directing consumer advertising and development costs. In addition to these expenses, the Company may use brand development fund receipts to reimburse the Company for personnel and other administrative and overhead costs the Company may incur related to administering the brand development fund.

Income Tax

The Company is a single member LLC as described in the organization and operations section above.

Accordingly, the Company's member reports the Company's taxable income on its income tax returns. The Company is disregarded for federal income tax purposes.

The Company is liable for an \$800 California annual tax and fee based on their total income. The Company files Texas franchise tax returns annually.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

B. CASH

Cash consists of the following at December 31, 2021:

Restricted	
Brand development fund	\$ 86,126
Gift cards outstanding	<u>14,922</u>
Total restricted cash	101,048
Unrestricted	<u>44,593</u>
Total cash	<u><u>\$ 145,641</u></u>

C. CASH FLOW INFORMATION

The Company did not have non-cash investing and financing transactions during the year ended December 31, 2021

D. GIFT CARDS OUTSTANDING

Gift card activity for the year ended December 31, 2021 was as follows:

Beginning balance	\$ 10,223
Sold	23,497
Redeemed	<u>(18,798)</u>
Total gift cards outstanding	<u><u>\$ 14,922</u></u>

E. RELATED PARTY TRANSACTIONS

On October 6, 2017 in connection with the purchase of the Company, the Member executed a promissory note in the amount of \$2,850,000 in favor of the Third Party (as described in Note A). The note is guaranteed by the shareholders of the Member, and the Company has guaranteed a security interest in and to all right, title and interest of the Company assets. The loan is payable in monthly installments including interest at 5%, maturing in October 2032. As of December 31, 2021, the amount owed on the note was \$2,193,034. For the year ended December 31, 2021, the Company paid the principal and interest due on the note described above in the amount of \$264,480. The total amount paid since 2017 is \$1,035,732, the total receivable from the Member as of December 31, 2021.

In accordance with generally accepted accounting principles, the Company is the primary beneficiary and the Member is the variable interest entity. Management has elected not to consolidate the financial statements of the two entities

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

E. RELATED PARTY TRANSACTIONS (CONTINUED)

California Subbros, Inc. has two shareholders that are officers of the Company. The officers are also shareholders of Subbros, Inc. and SD Subbros, Inc. (affiliated companies). Subbros, Inc. operates separate franchises in La Mesa and Rancho Bernardo, and SD Subbros, Inc. operates separate franchises in Santee and University City. The four franchises are considered affiliated company owned stores and are not required to pay the fees the franchised businesses are required to pay. They do so, however, as a matter of good business practice. The amount of royalty and brand development fund fees paid by Subbros, Inc. and SD Subbros, Inc. to the Company for the year ended December 31, 2021 was \$208,692. The amount of royalty and brand development fund fees included with receivables at December 31, 2021 was \$19,874.

The Company paid for equipment and loaned cash to the Rancho Bernardo franchise location in order to assist the store with its initial expenses in 2018 and 2019. The Company received payments in the amount of \$92,500 in 2021. The amount receivable at December 31, 2021 was \$10,411. The Company expects to collect the amount receivable in 2022.

The Company loaned cash to the University City franchise location in order to assist the store with its initial expenses in 2021 in the amount of \$25,000. The amount receivable at December 31, 2021 was \$25,000. The Company does not expect to collect the amount receivable in 2022.

The Company rents office space from a shareholder on a month-to-month basis. The monthly rent is \$963. The rent expense for the year ended December 31, 2021 was \$11,550.

F. LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2021:

Note payable (Economic Injury Disaster Loan), collateralized by all assets, payable in monthly installments of \$731 beginning June 2022, including interest at 3.75%, final payment due in June 2050. The balance due includes accrued interest.	<u>\$ 158,327</u>
Total long-term debt	158,327
Less current portion	-
Noncurrent portion	<u>\$ 158,327</u>

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

F. LONG-TERM DEBT (CONTINUED)

Annual maturities of long-term debt outstanding at December 31 are as follows:

2022	\$ -
2023	2,837
2024	2,945
2025	3,058
2026	3,174
2027 and thereafter	<u>146,313</u>
	<u><u>\$ 158,327</u></u>

On March 12, 2020, the SBA extended the deferment period for EIDL loans from 12 months to 24 months and on March 15, 2022, extended the deferment period for another 6 months. Borrowers may voluntarily continue to make payments during the deferment, as interest will continue to accrue on the outstanding loan balance during this period. Any change of terms to the loan as a result of the subsequent extension have not been calculated in the annual maturities described above.

G. INCOME TAX

The current year provision for income tax is comprised of the following at December 31, 2021:

State income tax provision	\$ 3,300
Less estimates paid	<u>(3,300)</u>
Income tax (prepaid) payable	<u><u>\$ -</u></u>

In 2021, it was discovered that the Company needed to file a California form 568 and pay the LLC fee and tax, since the sole member of the LLC is a California corporation. The LLC form 568 was filed for the years 2018, 2019, and 2020, and the LLC fees of \$2,500 and LLC tax of \$800 was paid for each year plus interest and penalties in the amount of \$10,191.

Generally, certain tax authorities may examine the Company's tax returns for four years from the filing date.

H. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits in banks and other financial institutions.

The Company maintains cash and cash equivalents with a major bank. Accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At December 31, 2021, the Company did not have cash balances with the bank in excess of the FDIC coverage.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

I. COMPENSATED ABSENCES

The Company does not accrue for compensated absences as the amount is considered immaterial.

J. SALES TO MAJOR CUSTOMERS

For the year ended December 31, 2021, the Company had revenue from one major owner of franchises that exceeded 10% of total net sales. Sales to this owner and their accounts receivable balance at December 31, 2021 were as follows:

	<u>Revenue</u>	<u>Accounts Receivable</u>
Owner A	\$ 108,211	\$ -

While revenues from certain contracts represent more than 10% of total revenues, the non-repetitive nature of the Company's business precludes an economic dependence on any individual customer.

K. DISSAGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table disaggregates the Company's revenue based on the timing of satisfaction of performance obligations for the year ended December 31, 2021:

Performance obligations satisfied at a point in time	\$ 738,179
Performance obligations satisfied over time	-
Total contract revenue	<u>\$ 738,179</u>

L. PENSION PLAN

The Company has a pension plan in which all employees meeting minimum age and service requirements are eligible to participate. Under terms of the adoption agreement, employees may contribute up to 90% of their eligible earnings. The Company will make a safe harbor matching contribution for employees equal to 100% of elective deferrals up to 4% of eligible earnings. The Company provided matching contributions that totaled \$1,139 for the year ended December 31, 2021.

The Company's matching contribution are made with each pay period and employees are 100% vested in their account balances. Administrative costs paid were \$2,320 the year ended December 31, 2021.

M. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 26, 2022, the date which the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to December 31, 2021 that would require adjustment to, or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

SCHEDULE I

GENERAL AND ADMINISTRATIVE EXPENSES

Bank fees	\$ 3,761	1%
Computer expense	3,519	0%
Dues and subscriptions	2,721	0%
Education expense	673	0%
Equipment rental	818	0%
Insurance	955	0%
Legal and accounting fees	16,803	2%
Licenses and permits	25	0%
Office supplies	279	0%
Payroll services	1,022	0%
Penalties	2,717	0%
Pension	3,459	0%
Printing and reproduction	529	0%
Rent	11,550	2%
Repairs and maintenance	113	0%
Telephone and internet	1,674	0%
Uniforms	1,335	0%
Wages and related expenses	<u>79,912</u>	11%
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 131,865</u>	18%

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
EXPENSES FOR OWNER BENEFIT
FOR THE YEAR ENDED DECEMBER 31, 2021**

SCHEDULE II

EXPENSES FOR OWNER BENEFIT

Automobile expense	\$ 9,315	1%
Cell phone expense	8,287	1%
Health insurance	53,632	7%
Officer payroll tax expense	2,166	0%
Officer salaries	<u>26,000</u>	4%
 TOTAL EXPENSES FOR OWNER BENEFIT	 <u>\$ 99,400</u>	 13%

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
BRAND DEVELOPMENT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

SCHEDULE III

BRAND DEVELOPMENT EXPENSES

Administrative costs	\$ 40,000	2%
Advertising	15,496	5%
Infrastructure expenses	6,818	1%
Marketing	5,659	1%
Printing	<u>31,815</u>	4%
TOTAL BRAND DEVELOPMENT EXPENSES	<u>\$ 99,788</u>	14%

EXHIBIT B
SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE DISCLOSURE DOCUMENT

FRANCHISE AGREEMENT



**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE AGREEMENT**

FRANCHISE AGREEMENT

SUMMARY PAGES

EFFECTIVE DATE: _____

FRANCHISEE: _____

INFORMATION FOR NOTICES:

Address: _____

Telephone Number: _____

Fax Number: _____

Email Address: _____

OPERATING PRINCIPAL: _____

Address: _____

Telephone Number: _____

Fax Number: _____

Email Address: _____

SITE SELECTION AREA: _____

DOCUMENT PREPARATION FEE: \$250

INITIAL FRANCHISE FEE: \$15,000 (first Store) \$10,000 (subsequent Store)

ROYALTY FEE: 6% of Gross Sales

OPENING ASSISTANCE FEE: \$5,000 (subject to change per Section 5.3.1.)

BRAND DEVELOPMENT FUND

CONTRIBUTION: 2% of Gross Sales

LOCAL ADVERTISING

EXPENDITURE: 1% of Gross Sales

RENEWAL FEE:

An amount equal to 50% of the then-current initial franchise fee generally charged to SUBMARINA® franchisees to enter into Franchise Agreements for subsequent Stores

FRANCHISEE and FRANCHISEE'S OWNERS:

Franchisee is duly formed in the State of _____, and the following is a list of all shareholders, partners, members, or other investors owning a direct or indirect interest in Franchisee and a description of the nature of their interest:

Name	% Ownership in Franchisee	Nature of Interest

SUBMARINA OF CALIFORNIA
ADDRESS FOR NOTICE:

Attention: Brian Kennedy
Submarina Franchise of California, LLC
5454 Grossmont Center Drive, Suite A
La Mesa, California 91942

FRANCHISED LOCATION: _____

OPENING DATE:

To be determined, subject to Section 3.5.

By signing below, each of the parties attests to the accuracy of the information contained in these Summary Pages and agrees to and intends to be legally bound by the terms and provisions of the Submarina Franchise of California, LLC Franchise Agreement attached to these Summary Pages, effective on the Effective Date set forth above.

FRANCHISOR:

Submarina Franchise of California, LLC
a Texas limited liability company

FRANCHISEE:

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE AGREEMENT

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STATE-SPECIFIC AMENDMENTS

ATTACHMENTS

Attachment A	Glossary of Additional Terms
Attachment B-1	Guaranty and Personal Undertaking
Attachment B-2	Confidentiality and Noncompetition Agreement
Attachment C	ACH Authorization
Attachment D	Lease Rider
Attachment E	Liability Waiver
Attachment F	Franchisee Questionnaire

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT (“**Agreement**”) is made and entered into as of the Effective Date reflected in the Summary Pages by and between Submarina Franchise of California, LLC, a Texas limited liability company with its principal office in La Mesa, California (“**SFC**”), and the franchisee identified in the Summary Pages (“**you**” or “**Franchisee**”).

RECITALS

A. SFC has the right to use and sublicense the use of a distinctive system relating to the establishment and operation of a retail business that offers submarine style sandwiches using hand-sliced-to-order meats and cheeses served on artisan breads that are baked fresh daily as well as side items, soft drinks, chips, and related items for dine-in consumption and take-out service (“**System**”).

B. The distinguishing characteristics of the System include, without limitation, distinctive interior and exterior design, decor, color scheme, graphics, fixtures and furnishings, proprietary ordering procedures; special recipes and menu items; proprietary food preparation techniques and presentation standards; community and social networking presence and protocols; standards, specifications, policies, and procedures for operations; quality and uniformity of the products and services offered; procedures for inventory, management, and financial control; training and assistance; advertising and promotional programs; and other standards, specifications, techniques, and procedures that SFC designates for developing, operating, and managing a **SUBMARINA®** store, all of which SFC may change, improve, and further develop (collectively, “**Standards**”).

C. The System is identified by means of certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including, but not limited, to the mark “**SUBMARINA®**” and such other trade names, service marks, and trademarks as are now designated and may hereafter be designated by SFC in writing for use in connection with the System (“**Marks**”).

D. You have applied to SFC for a franchise to operate a **SUBMARINA®** store using the System and Marks (“**Store**” or “**Franchised Business**”), and SFC has approved your application and desires to grant you such franchise, all pursuant to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration for the mutual premises contained in this Agreement, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

AGREEMENT

1. GRANT

1.1. **Grant.** Subject to the provisions of this Agreement, SFC hereby grants you the right (“**Franchise**”) to continuously operate a **SUBMARINA®** Store at the Franchised Location identified (or to be identified) in the Summary Pages and to deliver authorized products to locations in accordance with the Standards (which may include distance or area restrictions) and to use the Marks in the operation and promotion of the Franchised Business. To the extent that SFC may, from time to time, expand its service offerings, you have the right to provide such services in such area that SFC may authorize according to the terms of this Agreement and SFC’s then-current standards, policies, and procedures. You hereby undertake the obligation and agree to continually operate the Franchised Business during the term hereof and strictly according to the terms and conditions of this Agreement. This Agreement grants you no right, among others: **(a)** to sublicense the use of the System or Marks; **(b)** to co-brand with another concept; **(c)** to offer or sell products or services at or from any location other than the Franchised Location (such as from a cart, kiosk, or food truck) without SFC’s prior written consent; **(d)** to ship **SUBMARINA®** products, regardless of the destination, without SFC’s prior written consent; or **(e)** to distribute **SUBMARINA®** products through other channels, such as supermarkets, convenience stores or other retailers, or other food service providers.

1.2. This Agreement grants no territorial protection. SFC may develop franchised and company-owned Stores at any location, and may develop and operate other businesses that may or may not compete with the Store, regardless of the economic effect of such operation on the Franchised Business. SFC may distribute products and services identified by the Marks at any location, regardless of the proximity to your Store, and may otherwise compete with you.

2. TERM

2.1. **Term.** Unless sooner terminated as provided in this Agreement, the term of this Agreement (“**Term**”) will begin on the Effective Date and will continue 10 years from the Opening Date.

2.2. **Renewal.** You may renew the franchise granted by this Agreement for two, consecutive five-year terms if, at the end of each term, each of the following conditions has been satisfied: **(a)** you have notified SFC of your intent to renew the franchise no less than 12 months and no more than 24 months before the then-current term has expired; **(b)** you are not in default of any material provision of this Agreement and you have complied with the material terms and conditions of this Agreement throughout the Term; **(c)** all amounts owed to SFC and its Affiliates, to third-party suppliers, and to your landlord have been paid; **(d)** the Store has been renovated and refurbished so that it reflects SFC’s then-current image, trade dress, equipment, and furnishings requirements; **(e)** you have the right to remain in possession of the Store premises, or have secured an alternate site with SFC’s prior approval; **(f)** you comply with the then-current qualifications and training requirements; **(g)** you sign SFC’s then-current form of Franchise Agreement, the terms of which may be materially different than the terms of this Agreement, and each Owner executes a personal guaranty and undertaking in the form SFC prescribes; **(h)** you and each Owner sign a general and full release in favor of SFC and its Affiliates and their respective, officers, directors, shareholders, members, managers, employees, and agents, of any claims arising out of or relating to the franchise relationship including the offer and sale of the SUBMARINA® franchise opportunity; and **(i)** the Renewal Fee, in the amount specified in the Summary Pages, has been paid. Additional renewals will be at SFC’s sole discretion, and such consideration by SFC, if any, must not be interpreted to grant to you, herein, any additional renewal terms.

2.3. **Extension of this Agreement.** If you continue to accept the benefits of this Agreement after the expiration of the initial Term but do not complete the requirements in Section 2.2., then at SFC’s sole option, this Agreement may be treated as either: **(a)** expired as of the date of the expiration and you will be operating without a franchise or license to do so and in violation of our rights to the Marks and System; or **(b)** continued on a month-to-month basis (“**Interim Period**”) and all your obligations will remain in full force and effect during the Interim Period as if the Agreement had not expired, except that, you will be required to pay us 125% of the stated Royalty Fee and Brand Development Fund Fee set forth in the Summary Pages. Each Interim Period expires at the end of each calendar month unless this Agreement is continued as provided in this Section 2.3. The Interim Period does not create any new franchise rights, and upon expiration of the final Interim Period, you will be bound by all post-term obligations as provided in this Agreement.

3. SITE SELECTION, CONSTRUCTION; STORE LOCATION

3.1. **Site Selection and On-Site Evaluation.** Within 180 days after the Effective Date, you must have identified a site for the Store and submitted to SFC a site approval request packet, as set forth in Section 3.2., below. The site must be located within the Site Selection Area identified in the Summary Pages, must meet SFC’s then-current site selection criteria, and must otherwise be mutually acceptable to you and to SFC. SFC may conduct site selection evaluations or provide site selection assistance on its own initiative or in response to your reasonable request, if deemed necessary by SFC, but SFC will not provide assistance or consider a request for an on-site evaluation until all information and materials described in Section 3.2. below have been received. Ultimate site selection is your sole responsibility. If SFC conducts an on-site evaluation of your proposed site or provides in-person site selection assistance, SFC will not charge a fee for such first-time services. SFC may charge \$500 for the second and any additional on-site evaluation or site selection assistance performed, and you must also pay or reimburse SFC its related out-of-pocket costs, including the costs of all transportation, lodging, and meals.

3.2. **Franchise Site Application.** For each proposed site that you identify, you must deliver to SFC a completed franchise site approval request packet containing all information required by SFC, such as a description of the proposed site, demographic characteristics, traffic patterns, parking, character of the neighborhood, competition from other businesses in the area, the proximity to other businesses, the nature of other businesses in proximity to the site, and other commercial characteristics (including the purchase price, rental obligations, and other lease terms for the proposed site) and the size, appearance, other physical characteristics, and a site plan of the premises. Within 60 days of receiving your site application and all additional requested information, SFC will notify you whether or not the site is approved. If SFC does not provide notification within the 60-day time period, its silence should not be considered approval or rejection of the site. **SFC’s approval of a site is not an assurance that the Store will achieve a certain sales volume or level of profitability; it means only that the proposed site meets SFC’s minimum criteria for SUBMARINA® Stores. Once your site is approved, SFC is not responsible for any construction delays due to change orders, acts of God, disputes with landlords, architects, contractors, subcontractors, or any other vendor or due to any other action or reason occurring under your management of the build-out.**

3.3. **Lease of Building.** If you occupy the Store premises under a lease with a third-party landlord, SFC has the right to approve the lease terms, and you may not sign the lease until SFC has approved its terms. **SFC's approval of a lease does not mean that the economic terms of the lease are favorable; it means only that the lease contains the lease terms that SFC requires.** The lease must contain the terms reflected in Attachment D, including SFC's option to assume the lease in the event of expiration or termination of this Agreement. You shall deliver to SFC a fully-executed copy of the lease within 10 days after its execution.

3.4. **Store Design and Build-Out.** You must follow SFC's procedures for Store construction and build-out, which includes, but is not limited to, engaging an architect, design consultant, and/or general contractor that SFC specifies. You shall construct and build out the Store according to SFC's standards and specifications for design, decor, and layout and shall equip the Store according to SFC's requirements for fixtures, furnishings, equipment, interior and exterior signage, artwork and graphics, trade dress, and awnings. SFC shall provide such advice regarding construction and build-out as it deems appropriate, but you are solely responsible for sourcing, hiring, and paying for the professional services needed for you to complete your Store design and build-out obligations. You are also solely responsible for obtaining all government approvals, zoning classifications, permits, and clearances relating to the Store and for complying with applicable requirements of the Americans with Disabilities Amendments Act. During construction, you must maintain general liability and property damage insurance of the type and with the limits SFC requires, protecting you, SFC, and its Affiliates and their respective partners, shareholders, directors, agents, and employees. Such policy or policies must be written by a responsible insurer or insurers acceptable to SFC and must contain a waiver of subrogation in favor of SFC and its Affiliates, and their respective partners, shareholders, directors, agents, and employees. You shall notify SFC in writing when construction begins and thereafter shall provide a weekly progress report. SFC and its designees have the right to inspect the site at all reasonable times.

3.5. **Opening.** Your opening date (“**Opening Date**”) will be the date of your actual Store opening or 120 days from the date you take possession of the premises for the approved site, whichever occurs first; but the Opening Date must be no later than 365 days from the Effective Date. If you are unable to open your Store within 365 days from the Effective Date, SFC may, but is not obligated to, extend your Opening Date deadline in its sole discretion, provided that you have sent the extension request to SFC, in writing. The Opening Date will be reflected in an amendment to the Summary Pages or by any other form of written communication from SFC that defines the Opening Date, and such Opening Date will dictate for purposes of this Agreement. You may open the Store for business only with SFC's prior, written permission, which will be granted only if: **(a)** all amounts due SFC under this Agreement have been paid, **(b)** the Store has been constructed and equipped according to SFC's standards and specifications, **(c)** all of your pre-opening and training obligations have been satisfied, **(d)** SFC has received from you a signed ACH Authorization (Attachment C); **(e)** SFC has received from you a fully-executed copy of your Store lease containing the mandatory lease terms described in Attachment D; **(f)** SFC has received from you certificates of insurance as required by Article 11; and **(g)** you are otherwise in good standing under this Agreement.

3.6. **Relocation.** You may relocate the Store only with SFC's prior written consent. SFC will grant its consent if your lease expires or terminates through no fault of yours, or if the Store premises is destroyed or materially damaged by a Force Majeure event and you are not in default of this Agreement or any other agreement between you and SFC. Selection of the relocation site and Store construction, renovation, and opening will be governed by this Article 3; provided that if the relocation occurred as a result of a Force Majeure event, the Store must be open for business at the new location within 180 days of closing at the previous location.

If you request to relocate your Store for any other reason that is not the result of a Force Majeure event (“**Requested Relocation**”), then your Requested Relocation will only be granted at SFC's sole discretion. If your Requested Relocation is granted, then you must: **(a)** execute SFC's then-current form of Franchise Agreement, which may contain materially different terms than those in this Agreement; the term of such new agreement will be for the remaining Term of this Agreement at the time of relocation; **(b)** open the Store for business at the new location within five days of permanently closing the previous location; **(c)** pay SFC a \$5,000 fee (“**Relocation Fee**”); and **(d)** sign (and each of your Owners must sign) a general release in favor of SFC; provided, however, that any release will not be inconsistent with any state law regulating franchising. You are solely responsible for all relocation costs and expenses, which may include reimbursement to SFC for reasonable attorneys' fees associated with the relocation.

3.7. **Repair.** If your Store is destroyed or materially damaged by a Force Majeure event and you do not request to relocate the Store pursuant to Section 3.6., or if SFC does not approve your request, then you must repair and/or reconstruct your Store to SFC's then-current standards such that the Store is open and operating at the Franchised Location within 180 days after the occurrence of the Force Majeure event. SFC reserves the right to require you to

pay a minimum Royalty Fee during the period the Store is not open and operating, and you agree to pay such minimum fee.

4. FEES

4.1. Initial Franchise Fee. Upon execution of this Agreement, you shall pay SFC an Initial Franchise Fee in the amount specified in the Summary Pages. The Initial Franchise Fee is fully earned by SFC when paid and your payment is not refundable.

4.2. Royalty Fees. During the Term of this Agreement, you shall pay to SFC a nonrefundable and continuing Royalty Fee in the amount specified in the Summary Pages for the right to use the System and the Marks. If any taxes, fees, or assessments are imposed on your payment of the Royalty Fee (except taxes imposed on SFC's net taxable income), you must also pay or reimburse SFC the amount of the taxes, fees, or assessments within 15 days of SFC's written notice to you.

4.3. Other Payments. In addition to all other payments provided for in this Agreement, you shall pay SFC and its Affiliates, and all of your third-party vendors, suppliers, and landlord promptly when due:

4.3.1. All amounts advanced by SFC or which SFC has paid, or for which it has become obligated to pay on your behalf for any reason whatsoever.

4.3.2. The amount of all sales taxes, use taxes, personal property taxes, and similar taxes, which are or may be imposed upon you and required to be collected or paid by SFC **(a)** because of your Gross Sales, or **(b)** because of Initial Franchise Fees, Royalty Fees, or advertising fees (and Franchisee Advertising Association dues, if any) collected by SFC from you (but excluding ordinary income taxes). SFC, in its discretion, may collect the taxes in the same manner as Royalty Fees are collected and promptly pay the tax collections to the appropriate governmental authority; provided, however, that unless SFC so elects, it shall be your responsibility to pay all sales, use, or other taxes now or hereinafter imposed by any governmental authorities on Initial Franchise Fees, Royalty Fees, and advertising fees.

4.3.3. Amounts due relating to your participation in marketing programs pursuant to Article 9 of this Agreement.

4.3.4. All amounts due SFC and its Affiliates, all Designated Suppliers, Designated Distributors, and your other trade creditors, and your landlord (unless such amount is subject to a bona fide dispute).

4.4. No Set-Off Rights. You may not set off, deduct, or otherwise withhold any fees or other amounts due SFC under this Agreement on grounds of alleged nonperformance by SFC of any of its obligations or for any other reason. Withholding royalties or any other amounts due SFC is a material breach of this Agreement.

4.5. Accounting Period. SFC shall have the right to define applicable accounting periods for purposes of calculating and paying amounts due under this Agreement. Each period, which may be defined in terms of days, weeks, or months, in SFC's sole discretion, will be considered an "**Accounting Period**" for all purposes under this Agreement. SFC has the right to change or modify the definition of an Accounting Period, in its discretion, for the entire SUBMARINA® franchise system, generally, or for you, individually, if you fail to comply with this Agreement. SFC shall provide you at least 30 days advance written notice of any change in Accounting Period affecting the SUBMARINA® franchise system, or at least 30 days advance written notice of any change in Accounting Period affecting you, individually, based on your noncompliance under this Agreement. You shall make all changes necessary to conform to such change or modification.

4.6. Payment Terms and Procedures. All payments required by this Agreement must be paid within the time SFC specifies ("**Due Date**"). If the Due Date is not a Business Day, then payment will be due on the next Business Day. SFC shall determine the amount of the Royalty Fee and other amounts due under this Agreement by accessing and retrieving Gross Sales data from your computer system, as permitted by Article 10. On each Due Date, SFC will transfer from your commercial bank operating account ("**Account**") the fees and Fund contributions due and owing.

4.7. Electronic Fund Transfer. You shall participate in SFC's then-current electronic funds transfer program authorizing SFC to use a pre-authorized bank draft system. You shall: **(a)** comply with SFC's procedures, as specified in the Manual or otherwise in writing; **(b)** perform those acts and sign and deliver those documents as may be necessary to accomplish payment by electronic funds transfer as described in this Section 4.7.; **(c)** give SFC an authorization in the form designated by SFC to initiate debit entries and/or credit correction entries to the Account for payments of the Royalty Fee and all other amounts payable under this Agreement, including any interest charges; and **(d)** make

sufficient funds available in the Account for withdrawal by electronic funds transfer no later than the Due Date for payment thereof. Notwithstanding the provisions of this Article 4, SFC reserves the right to modify, at its option, the method by which you pay the Royalty Fee and other amounts owed under this Agreement upon receipt of written notice by SFC. Your failure to have sufficient funds in the Account is a material breach of this Agreement.

4.8. Interest; Nonsufficient Funds Charge. Any payments not received by SFC by the Due Date will accrue interest at the rate of 18% per annum or the highest lawful interest rate permitted by the jurisdiction in which the Store operates, whichever is less. If any check or draft, electronic or otherwise, is returned for insufficient funds, you shall pay to SFC a nonsufficient funds charge for each check or draft in the amount of \$50 (which may be increased each year by an amount not to exceed 10% of the then-current amount) and reimburse SFC for all expenses that it incurs because of such nonsufficient funds.

4.9. Partial Payments; Application of Payments. If you pay less than the amount due, your payment will be considered a partial payment. SFC may accept such payment as a partial payment, irrespective of any endorsement or other statement that the payment constitutes full payment. SFC's acceptance of such partial payment will not be considered a waiver of any of its right to demand or receive full payment, and you hereby waive any estoppel defense in this regard. SFC may apply your payments to any indebtedness, in its sole and reasonable discretion, regardless of any designation that accompanies the payment.

4.10. Administration Fees, Collection Costs, and Expenses. If you fail to comply with any of the terms or conditions of this Agreement, SFC has the right to impose, and you shall pay on demand, an administrative fee, in an amount not to exceed \$100 per hour, for all time spent by SFC's personnel in connection with addressing and resolving your failure to comply with the terms of this Agreement (including, for example, your failure to timely provide financial information, a copy of your lease, a copy of your insurance certificate, *etc.*). This administrative fee will be in addition to any other fees due because of your noncompliance with this Agreement. You also must promptly reimburse SFC for any and all costs and expenses that it incurs in enforcing the terms of this Agreement including, without limitation, fees paid to a collection agency and reasonable attorneys' fees and accountants' fees. The fees and reimbursement obligations described in this Section 4.10. are in addition to and not in lieu of any other remedies available to SFC under this Agreement or applicable law.

4.11. Document Preparation Fees. To help offset legal and administrative costs incurred in connection with the preparation of this Agreement and any amendments to this Agreement, SFC has the right to charge, and you agree to pay, a document preparation fee of \$250 for the Agreement, plus \$250 for each amendment agreement to the Agreement, regardless of when the amendment agreement is drafted.

5. TRAINING AND ASSISTANCE

5.1. Initial Training. At least 30 days before the Opening Date of your first Store, at least two people (one of which must be your Operating Principal or District Manager, if applicable, must attend and complete to SFC's satisfaction, SFC's then-current initial training program. The second person to attend the initial training does not have to be the Store's manager, but must be a person approved by SFC. If you are acquiring more than one existing Store pursuant to a transfer, then at least 30 days before you close on the acquisition of the Stores, you must comply with SFC's then-current training requirements for such transfers. The number of people who must attend and satisfactorily complete, to SFC's satisfaction, SFC's then-current initial training for multi-Store acquisitions and the length of training will vary depending on the number of Stores you acquire, your experience in the food service business, and the experience of those you plan to employee. In addition to the other people we require to attend initial training, your Operating Principal or District Manager, if applicable, must attend and satisfactorily complete, as we determine, our initial training program for transfers of the type described above. The initial training program is provided to you at no charge and will take place at a location and time that SFC designates. We may require you to attend additional on-the-job training at a Certified Training Store selected by us or to attend training provided by a third party. These training programs may be provided in cities other than La Mesa, California. We may charge you a reasonable fee to attend additional on-the-job training, and the third-party providers may charge an attendance fee. At your request, SFC may permit additional individuals to attend the same training programs, subject to space availability. You are responsible for all costs and expenses of complying with SFC's training requirements including, without limitation, tuition/attendance fees, salary, travel, lodging, and dining costs for all of your employees who participate in the training. Additionally, you must sign the Liability Waiver, Attachment E, hereto. If you notify SFC within six months of completing the initial training program that you believe you did not receive adequate training, SFC will permit an additional person that we approve to attend our next regularly scheduled training program without charge. If SFC does not receive notification within this six-

month period, then you will be deemed to have waived any claim that you did not receive adequate training. SFC reserves the right to modify the initial training program, at SFC's sole discretion, at any time.

5.2. Pre-Opening Consultation. In addition to the site selection assistance described in Section 3.1., SFC shall provide pre-opening consultation and advice it deems appropriate, by telephone or other remote means, which may include advice regarding site development and build-out; employee staffing, recruiting, and training, purchasing and inventory control; and such other matters as SFC deems appropriate. If you request on-site assistance, or if SFC deems on-site assistance necessary, you must pay SFC \$500 per site visit and reimburse SFC the costs of transportation, lodging, and meals.

5.3. Store Opening Assistance.

5.3.1. If this Agreement is being signed in conjunction with your first SUBMARINA® Store, SFC will make available one or more individuals to provide you 10 days of on-site Store opening assistance. You must pay us an "**Opening Assistance Fee**" in the amount set forth in the Summary Pages no later than 45 days prior to the Opening Date, and SFC reserves the right to increase this amount by 10% each year. At your request, or if SFC deems necessary, SFC will provide additional, on-site opening assistance, subject to availability of personnel. In such event, you agree to pay SFC's then-current per diem fee for each individual that we provide for such assistance, plus our out-of-pocket costs for travel, lodging, and dining.

5.3.2. If this Agreement is being signed in conjunction with your second or additional SUBMARINA® Store, although SFC is not required to provide you with on-site Store pre-opening assistance, if you request our assistance, or if we consider the assistance necessary in our sole discretion, SFC has the right to charge, and you agree to pay, the then-current Opening Assistance Fee.

5.4. Ongoing Consultation. SFC shall provide such ongoing consultation and advice as it deems appropriate, which may include information about new product development, instruction concerning the operation and management of a SUBMARINA® Store, advertising and marketing advice, and financial and accounting advice. Such consultation and advice may be provided, in SFC's discretion, through Store visits by SFC personnel or other persons it designates, via meetings, seminars, or conferences, and/or through dissemination of electronic or printed materials.

5.5. Additional and/or Remedial Training.

5.5.1. You shall cause your Operating Principal, District Manager, and other employees that SFC designates to attend such additional courses, seminars, and other training programs which may be offered in various formats, including but not limited to, third-party providers, online training, regional meetings or seminars, traditional classroom training, and programs offered at the Submarina Franchise Meeting. SFC or the third-party providers may charge tuition for the additional courses, seminars, or other training programs, and you are responsible for all training-related costs and expenses including, without limitation, tuition/attendance fees, salary, travel, lodging, and dining costs for all employees who participate in the training.

5.5.2. At any time during the Term of this Agreement, if you request, or if SFC determines in its sole discretion it is necessary, SFC will provide on-site remedial training, subject to the availability of SFC's personnel. You will pay SFC the per diem fee then being charged for on-site remedial training and pay or reimburse SFC for the expenses incurred by its representatives, including the costs of travel, lodging, and meals.

5.6. Performance by Delegate. You acknowledge and agree that any rights or duties of SFC may be exercised and/or performed by any of SFC's designees, agents (who may be an unaffiliated third party), or employees. SFC reserves the right to retain the services of a master development agent ("**Area Director**") in the geographic area in which the Store will be located. In such event, the Area Director may provide certain consultation, advice, services, and assistance as SFC may direct. You acknowledge and agree that you are not an intended third-party beneficiary under any agreement between SFC and any Area Director.

6. OPERATION OF THE FRANCHISED BUSINESS

6.1. General Operating Requirements. You understand and acknowledge that every detail of the System is essential to maintaining and enhancing the goodwill associated with the Marks and the integrity of the brand. Accordingly, you will:

6.1.1. Operate the Franchised Business according to the highest applicable health standards and ratings, to timely obtain any and all permits, certificates, or licenses necessary for the lawful operation of the Franchised

Business, to operate the Franchised Business according to SFC's operating methods, standards, and specifications, and to maintain, at all times, a high moral and ethical standard in the operation of the Franchised Business.

6.1.2. Accept debit cards, credit cards, Restaurant value cards, or other non-cash systems that SFC specifies periodically and participate in SFC's required payment procedures and collection of funds relating thereto. You further agree to acquire and install all necessary hardware and/or software used in connection with these non-cash systems. The parties acknowledge and agree that protection of customer privacy and credit card information is necessary to protect the goodwill of businesses operating under the Marks and System. Accordingly, you agree that you shall cause the Franchised Business to meet or exceed, at all times, all applicable security standards developed by the Payment Card Industry Data Security Standards (**PCI DSS**) council or its successor and other regulations and industry standards applicable to the protection of customer privacy and credit card information, including but not limited to the Fair and Accurate Credit Transaction Act (**FACTA**), and all other data security requirements we prescribe. You are solely responsible for educating yourself as to these regulations and standards and for achieving and maintaining applicable compliance certifications. You shall defend, indemnify, and hold SFC harmless from and against all claims arising out of or related to your violation of the provisions of this Section 6.1.2.

6.1.3. Notify SFC immediately by telephone and confirm in writing within 48 hours of any investigation or violation, actual or alleged, concerning any health, liquor, or narcotics laws or regulations or concerning any data breaches or data security threats and notify SFC in writing within 72 hours of the commencement of any investigation, action, suit, or proceeding or the issuance of any order, writ, injunction, award, or decree of any court, agency, or other government instrumentality, which may adversely affect the operation or financial condition of the Franchised Business.

6.1.4. Upon the occurrence of a Crisis Management Event, immediately inform SFC's President (or as otherwise instructed in the Manual) by telephone, or as set forth in this Agreement, of such event and to cooperate fully with SFC and with the appropriate authorities with respect to the investigation of the Crisis Management Event. In an effort to mitigate possible damages to the Marks and System, you must cooperate fully with SFC with respect to managing statements and other responses to the Crisis Management Event.

6.1.5. Process and handle all customer complaints connected with or relating to the Store and promptly notify SFC of all: **(i)** food related illnesses; **(ii)** safety or health violations; **(iii)** claims exceeding \$1,000; and **(iv)** any other material claims against or losses suffered by the Franchised Business. You shall maintain any communications with governmental authorities affecting the Store during the Term of this Agreement and for one year after the expiration or earlier termination hereof. If any customer of the Franchised Business contacts SFC to report a complaint about your Store, the parties agree that SFC may, in its discretion, compensate the customer in such manner as SFC determines appropriate, and you agree to reimburse SFC the amount of such compensation upon demand by SFC.

6.1.6. Attend, and cause your Operating Principal to attend, the Submarina Franchise Meeting.

6.1.7. Purchase and use all operations-related programs or materials we require, at our sole discretion, as if such programs or materials are supplied by third-party vendors, and you agree to pay all costs and/or fees associated with these programs or materials.

6.1.8. Comply with all laws pertaining to sending emails, including but not limited to the Controlling the Assault of Non-solicited Pornography and Market Act of 2003 (CAN-SPAM Act).

6.1.9. Upon request from SFC, provide SFC a copy of all third-party contracts you enter into in connection with your operation of the Store. SFC reserves the right to review such contracts for the purpose of enforcing brand standards, but not for the purpose of approving or negotiating any terms set forth therein.

6.2. Operating Principal; District Manager.

6.2.1. If you operate one **SUBMARINA®** Store, the Store must be supervised by the Operating Principal. If the Franchisee is an individual or general partnership, the Operating Principal will be the individual Franchisee or one of the general partners. If the Franchisee is a Business Entity, the Operating Principal will be an individual with at least a 10% equity interest in the Franchisee. The Operating Principal shall have full control over day-to-day Store management and operations. Unless a District manager is appointed, as described below: **(a)** the Operating Principal must attend and successfully complete SFC's initial training program and all additional training (including food safety training) that SFC requires, to SFC's satisfaction; and **(b)** the Operating Principal shall devote his or her full-time efforts to Store operations and shall not engage in any other business or activity, directly or indirectly, that requires substantial management responsibility or time commitment. SFC shall have approved the Operating Principal as

meeting its then-current qualifications for such position. If the Operating Principal ceases to serve in, or no longer qualifies for, such position, or transfers his or equity interest, you shall designate another qualified person to serve as your Operating Principal within 30 days after the date the prior Operating Principal ceases to serve or no longer qualifies to serve. Any proposed replacement Operating Principal must successfully complete the initial training program and such other training (including food safety training) required by SFC and be approved by SFC, before assuming his or her position as Operating Principal and, in no event, later than 90 days after the previous Operating Principal ceased to serve in such position.

6.2.2. If you operate more than one SUBMARINA® Store, or if the Operating Principal will not devote full-time efforts to the management and operation of the Store governed by this Agreement then, in addition to the Operating Principal, you must appoint an individual to serve as your District Manager. Your District Manager shall have full control over day-to-day Store management and operations. Your District Manager need not have an equity interest in your Business Entity, but must have completed SFC's initial training program and all additional training (including food safety training) that SFC requires, to SFC's satisfaction. Your District Manager shall devote his or her full-time efforts to Store management and operations and shall not engage in any other business or activity, directly or indirectly, that requires substantial management responsibility or time commitment. SFC shall have approved the District Manager as meeting its then-current qualifications for such position and shall not have later withdrawn such approval. If the District Manager ceases to serve in, or no longer qualifies for, such position, you shall designate another qualified person to serve as your District Manager within 30 days after the date the prior District Manager ceases to serve or no longer qualifies to serve. Any proposed replacement District Manager must successfully complete the initial training program and such other training (including food safety training) required by SFC and be approved by SFC, before assuming his or her position as District Manager and, in no event, later than 90 days after the previous District Manager ceased to serve in such position.

6.3. Employee Policy; Uniforms and Employee Appearance. You shall maintain a competent, conscientious, and trained staff, and shall take such steps as are necessary to ensure that your employees preserve good customer relations; render competent, prompt, courteous, and knowledgeable service; and meet such minimum standards as SFC may establish from time to time in the Manual or otherwise in writing. You shall cause all employees, while working at the Store, to: (a) wear uniforms of such color, design, and other specifications as SFC may designate from time to time, and (b) present a neat and clean appearance. In no case shall any of your employees wear his or her SUBMARINA® uniform while working for you at any location other than the Franchised Business. Notwithstanding the foregoing, SFC does not dictate your hiring or other employment practices policies, and you are required to be knowledgeable of and adhere to all federal and state employment-related laws.

6.4. Authorized Menu Offerings; Online Ordering. You must offer and sell all menu items that SFC requires, and only those menu items that SFC has approved. You shall prepare, package, and serve all menu items in accordance with SFC's recipes, standards, and procedures for preparation, presentation, and service as communicated to you from time to time via the Manual or other written directives. Such standards and procedures may include, without limitation, adherence to recipes (including use of prescribed ingredients and prescribed measure of ingredients), use of containers and paper goods bearing the Marks, packaging procedures, requirements or prohibitions relating to "combo meals," product holding times, and other standards for displaying for sale menu items and other merchandise. You shall participate in all market research programs that SFC requires, which may include test-marketing new products, purchasing a reasonable quantity of new products for test-marketing, and promoting the sale of the new products, and provide SFC with timely reports and test results for all such programs. You shall participate in any online ordering program developed or implemented to allow customers to order SUBMARINA® menu items or other promotional products through the Internet or through other digital applications. Participation in such program is mandatory, and you agree to pay to us or a third party an amount we require, up to \$200 per month, for costs and fees to support such program, which amount may be increased each year by an amount not to exceed 10% of the then-current monthly fee.

6.5. Purchase Requirements. You must purchase and install, at your expense, all fixtures, furnishings, equipment, decor, trade dress, signs, and other items as SFC may reasonably direct; and shall refrain from installing or permitting to be installed on or about the Store premises any fixtures, furnishings, equipment, decor, signs, vending or game machines, or other items not approved for use by SFC. In addition, you shall purchase and use only ingredients, containers, packaging materials, and supplies that conform to SFC's standards and specifications; and shall purchase, use, offer, and/or promote the food and beverage products and other ingredients which are produced or manufactured in accordance with SFC's proprietary recipes, specifications, and/or formulas or which SFC designates as "Proprietary Products."

6.6. Purchases from Designated Sources.

6.6.1. You agree to purchase only from SFC or suppliers designated by SFC (“**Designated Suppliers**”): (a) fixtures, furniture, equipment, interior and exterior signage, graphics, decor, trade dress, as SFC defines trade dress, and Store design consulting services; (b) food products and ingredients whether or not they are developed by or for us pursuant to a special recipe, formula, or specifications, including but not limited to bread, bread products, meat, and protein-related products; (c) all fountain and bottled beverages; (d) uniforms, shirts, memorabilia, and all merchandise and items intended for retail sale (whether or not bearing our Marks); (e) advertising, point-of-purchase materials, and other printed promotional materials; (f) gift certificates and stored value cards; (g) stationery, business cards, contracts, and forms; (h) bags, packaging, and supplies bearing our Marks; and (i) all other goods and/or services as SFC requires. In addition to Designated Suppliers, SFC may require you to buy your requirements of food, ingredients, and supplies from affiliated or third-party distributors (“**Designated Distributors**”), and you shall comply with all such requirements. SFC may establish commissaries and distribution facilities owned and operated by SFC or an Affiliate that SFC may deem a Designated Distributor. SFC may receive money or other benefits from Designated Suppliers and Designated Distributors based on your purchases; you agree that SFC has the right to retain and use all such benefits as it deems appropriate, in its sole discretion.

6.6.2. You may purchase from any supplier items and services for which SFC has not identified Designated Suppliers or Designated Distributors, as long as the items and services meet SFC’s specifications. These specifications may include brand requirements (“**Approved Brands**”), and to the extent that Approved Brands have been identified, you may purchase and use only the Approved Brands.

6.6.3. SFC may from time to time modify the list of Designated Suppliers, Designated Distributors, and/or Approved Brands. You shall promptly comply with all such modifications. **SFC is not responsible for any delays, damages, acts of God, or defects relating to your purchases of goods or services from Designated Suppliers or Designated Distributors. SFC is not responsible for any cost increases related to increases in material costs, commodity prices, shipping and transportation costs, or other costs. Additionally, SFC makes no warranties concerning the freshness, quality, or shelf-life of any product sold by Designated Suppliers or Designated Distributors and expressly disclaims all implied warranties with respect to products sold by Designated Suppliers and Designated Distributors, including the warranty of merchantability and/or fitness for a particular use. You are solely responsible for inspecting all products and ingredients and determining their fitness for sale or use. You hereby waive all claims against SFC arising out of or relating to the quality and/or fitness of products supplied by Designated Suppliers and Designated Distributors.**

6.6.4. SFC may approve one or more suppliers for any goods or materials and may approve a supplier only as to certain goods or materials. SFC may concentrate purchases with one or more suppliers or distributors to obtain lower prices and/or the best advertising support and/or services for any group of SUBMARINA® Stores or any other group of Stores franchised or operated by SFC or its Affiliates. Approval of a supplier may be conditioned on requirements relating to the frequency of delivery, reporting capabilities, standards of service, including prompt attention to complaints, or other criteria, and concentration of purchases, as set forth above, and may be temporary pending a further evaluation of such supplier by SFC.

6.6.5. If you propose to purchase from a previously unapproved source, you shall submit to SFC a written request for such approval, or shall request the supplier to submit a written request on its own behalf. SFC has the right to require, as a condition of its approval, that its representatives be permitted to inspect the supplier’s facilities, and that such information, specifications, and samples as SFC reasonably requires be delivered to SFC and/or to an independent, certified laboratory designated by SFC for testing prior to granting approval. A charge not to exceed the reasonable cost of the inspection and the actual cost of the test shall be paid by you. SFC will notify you within 60 days of your request as to whether you are authorized to purchase such products from that supplier. SFC reserves the right, at its option, to re-inspect the facilities and products of any such approved supplier and to revoke its approval of any supplier upon the suppliers’ failure to meet SFC’s criteria for quality and reliability.

6.7. Franchised Location; Vehicles.

6.7.1. You shall maintain the Store (including adjacent public areas) in a clean, orderly, condition and in excellent repair and in accordance with SFC’s standards. You shall, at your expense, make such additions, alterations, repairs, and replacements under this Agreement as may be required for that purpose, including, without limitation, such periodic repainting, repairing, and replacing of obsolete or deteriorated signs, furnishings, fixtures, equipment, and decor as SFC may reasonably direct. Upon SFC’s request, you shall install and maintain at the Store premises

interactive multi-media equipment, devices, and facilities SFC requires, including, without limitation, approved music systems, wi-fi, and other wireless Internet and communications systems, and interactive displays, including plasma or LCD screens. If such requirements include in-store video camera systems, SFC will be given login credentials for remote access to the camera systems.

6.7.2. You shall not cause or permit vending, game or gaming machines, pay telephones, automatic teller machines, Internet kiosks, or any other mechanical or electrical device to be installed or maintained at the Franchised Location without our consent, which consent will only be granted at our sole discretion.

6.7.3. You shall purchase and install, at your expense, all fixtures, furnishings, equipment, decor, signs, and other items as SFC may reasonably direct from time to time in the Manual or otherwise in writing in accordance with SFC's standards and specifications; and shall refrain from installing or permitting to be installed on or about the Franchised Location, any fixtures, furnishings, equipment, decor, signs, vending, or game machines or other items not previously approved in writing as meeting SFC's standards and specifications. In the event any designated equipment is removed due to failure to comply with System standards, SFC has the right to replace such equipment, or make arrangements to have such equipment serviced, repaired, and/or cleaned at your expense.

6.7.4. At SFC's request, you shall make such alterations as may be necessary to reflect new product offerings and marketing incentives, including updating or replacing menu boards and the purchase and use of new interior signage, graphics, and/or point of sale materials.

6.7.5. At SFC's request, but not more often than once every 60 months (and in addition to any work which you may undertake pursuant to other sections of this Agreement), you shall refurbish the Store, at your own expense, to conform to the building design, trade dress, color schemes, and presentation of the Marks in a manner consistent with the then-current public image for new or remodeled SUBMARINA® Stores in the System, including, without limitation, replacement or renovation of equipment, remodeling, redecoration, and modifications to existing improvements and reasonable structural changes that SFC may reasonably require or that may be required by law.

6.7.6. Any vehicle used in connection with the operation of the Store must meet SFC's image and other standards. You shall place such signs and decor items on the vehicle as SFC requires and keep the vehicle clean and in good working order. No one under the age of 18 and no one without a valid driver's license may be permitted to operate a vehicle used in connection with the Store. Each individual who operates a vehicle used in connection with Store operations must comply with all applicable laws, regulations, and rules of the road and use due care and caution in the operation and maintenance of the vehicles. Except as stated herein, SFC does not exercise any control over any motor vehicle used by Franchisee.

6.8. Days and Hours of Operation. You shall cause the Store to be open and operating on the days (currently seven days per week) and during the hours that SFC prescribes in the Manual. Recognizing that an unauthorized closure of the Store results in lost sales and payment of a lower Royalty Fee and negatively affects the value of the SUBMARINA® brand, you agree to pay to SFC an unauthorized closure fee in the amount of \$250 for each day the Store fails to maintain required hours of operation (including closure for the day, early closure, or late opening) without SFC's prior authorization or permission. This fee is not a penalty, but is intended as a reasonable estimation of the amount of Royalty Fee lost and other damages that SFC will sustain as a result of the unauthorized closure. This fee is in addition to and not in lieu of any other rights or remedies available to SFC under this Agreement or applicable law.

6.9. Quality Assurance Inspections; Testing. SFC has the right to enter upon the Store premises, including "virtual" Store visits via in-Store video camera systems or other developing technology, during regular business hours to inspect the Store for quality assurance purposes. Such inspections are for the purpose of enforcing System standards. They are not intended to exercise, nor do they constitute, control over your day-to-day operation of your Restaurant or the Franchised Business. You shall allow SFC from time to time to obtain samples of ingredients, products, and supplies, without charge therefor, for testing for quality assurance purposes. If notified of a deficiency in SFC's System standards, you must promptly cure the deficiency. If you fail to promptly cure the deficiency, SFC may undertake to cure the deficiency on your behalf. In such case, SFC has the right to charge, and you agree to pay upon demand, a reasonable fee for its services, and you must reimburse SFC for all out-of-pocket costs that it incurred in connection with taking such corrective measures.

6.10. Pricing. To the fullest extent permitted by applicable law, SFC reserves the right to establish maximum, minimum, or other pricing requirements with respect to the prices you may charge for products or services.

6.11. **Intranet/Extranet System.** SFC may, at its option, establish and maintain an intranet or extranet system (“**Intranet**”) through which members of the SUBMARINA® franchise network may communicate and through which SFC may disseminate training modules, Store-opening tools, updates to the Manual, and other Confidential Information. SFC will have no obligation to establish or to maintain the Intranet indefinitely and may dismantle it at any time without liability to you. SFC may establish policies and procedures for the Intranet’s use. SFC expects to adopt and adhere to a reasonable privacy policy. However, you acknowledge that, as administrator of the Intranet, SFC can access and view any communication that anyone posts on the Intranet. You further acknowledge that the Intranet and all communications and documents that are posted to it will become SFC’s property, free of any claims of privacy or privilege that you or any other individual may assert. If you fail to pay when due any amount payable to SFC under this Agreement, or if you fail to comply with any policy or procedure governing the Intranet, SFC may temporarily suspend your access to any chat room, bulletin board, listserv, or similar feature the Intranet includes until such time as you fully cure the breach. SFC has the right to impose, and you agree to pay to us or a third party, an amount we require, up to \$150 per month, for costs and fees to support such Intranet communications, which amount may be increased each year by an amount not to exceed 10% of the then-current monthly fee.

6.12. **Website; Social Media.** SFC may, but will not be obligated to, establish and maintain from time to time SFC’s Website to provide information about the System and the goods and services that SUBMARINA® Stores provide. SFC has sole discretion and control over the design and content of SFC’s Website. You agree to comply with SFC’s social media policy as communicated to you and as modified from time to time.

6.13. **Compliance with Laws.** As between you and SFC, you are solely responsible for the safety and well-being of your employees and customers of the Franchised Business. Accordingly, you shall fully comply with all federal, state, and local laws, rules, and regulations when exercising your rights and fulfilling your obligations under this Agreement. It is your sole responsibility to apprise yourself of the existence and requirements of all such laws, rules, and regulations and to adhere to them at all times during the Term of this Agreement.

6.14. Required Products and Services Risk. You acknowledge and agree that products, equipment, and technology are constantly changing, whether updated, improved, replaced, or discontinued. Consequently, such changes sometimes create transition and incompatibility challenges. By entering into this Agreement, you acknowledge the potential of such occurrences and assume all risk associated with such issues, which you acknowledge may affect your ability to order or receive products or to conduct business, and you acknowledge that SFC is not responsible for any damages caused by such issues or technology failures, including lost sales or profits.

7. MARKS AND COPYRIGHTS

7.1. **SFC’s Representations.** SFC represents to you that it has obtained from its Affiliate a license to use and to sublicense to you the right to use the Marks in accordance with the terms and conditions of this Agreement.

7.2. **Acknowledgments.** You expressly acknowledge that SFC or its Affiliate owns all right, title, and interest in and to the Marks and the goodwill associated with the Marks and that you have no ownership interest in the Marks. You further acknowledge and agree that any and all goodwill associated with the Store and identified by the Marks is SFC’s property and will inure directly and exclusively to the benefit of SFC and that, upon the expiration or termination of this Agreement for any reason, no monetary amount will be assigned as attributable to any goodwill associated with your use of the Marks. You understand and agree that any use of the Marks other than as expressly authorized by this Agreement, without SFC’s prior written consent, may constitute an infringement of SFC’s rights herein and that the right to use the Marks granted herein does not extend beyond the termination or expiration of this Agreement.

7.3. **Use of the Marks.** You shall use only the Marks designated by SFC, shall use them only in the manner that SFC authorizes and permits, and shall use them with the symbols “®”, “™”, or “SM”, as appropriate. You shall use the Marks only in connection with the operation and promotion of the Franchised Business and only in the manner prescribed by SFC. Notwithstanding the foregoing, you may not use the Marks, or allow the Marks to be used, by any other person or entity, in conjunction with selling the Store or the assets associated therewith or the Franchised Business, or placing an advertisement or listing, in or through any form of media, which advertisement seeks to sell, in whole or in part, the Store or the assets associated therewith, or that seeks to source a loan or investor for the Store or the Franchised Business. Such advertisements or listings must only describe the Store or the Franchised Business in general terms. You must enforce this restriction with the activities of all sales agents, brokers, or other representatives who assist you with such sale. You may not contest ownership or validity of the Marks or any

registration thereof or engage in any conduct that adversely affects the ownership or registration of the Marks or SFC's right to use or to sublicense the use of the Marks. You shall execute all documents that SFC requests in order to protect the Marks or to maintain their validity and enforceability.

7.4. Restriction Against Use in Your Corporate Name. You may not use the Marks or any part thereof in your corporate name, and you may not use them to incur any obligation or indebtedness on SFC's behalf.

7.5. Restriction Against Use of the Marks and Copyrighted Works on the Internet. You may not use the Marks or any part or derivative thereof or any of SFC's Copyrighted Works on the Internet, except as expressly permitted in writing. Without limiting the generality of the foregoing, you may not use the Marks or any part or derivative of the Marks or any abbreviation, acronym, or phonetic variation thereof as part of any URL or, domain name, including but not limited to any gaming Website, social networking Website, or marketing/discounting Website; as part of any user name; as part of any unauthorized email address; or as part of any unauthorized software application (app). You also may not display on any Website (including commercial websites, gaming Websites, social networking Websites, and marketing and advertising Websites) any of SFC's Copyrighted Works, which include the design portion of its Marks, or any menu items or collateral merchandise identified by the Marks. Additionally, you acknowledge that SFC is the lawful, rightful, and sole owner of certain Internet domain names that have been established or may be established by SFC in the future, and you unconditionally disclaim any ownership interest in those or any colorably similar Internet domain name(s).

7.6. Notice. You shall identify yourself as an independent franchise owner of the Franchised Business in conjunction with any use of the Marks or operation of the Franchised Business, including, but not limited to, such use on email signatures, invoices, order forms, receipts, business stationery, business cards, and contracts, as well as at such conspicuous locations at the Store as SFC may designate in writing. The form and content of such notice will comply with the standards set forth in the Manual.

7.7. Infringement. You shall promptly notify SFC of any suspected unauthorized use of, or any challenge to the validity of the Marks, Copyrighted Works, or any challenge to SFC's or its Affiliates' ownership of, SFC's license to use and to license others to use, or your right to use, the Marks or Copyrighted Works licensed under this Agreement. SFC shall have complete discretion to take any action it deems appropriate in connection with any infringement of, or challenge or claim to, any Mark or Copyrighted Work and the right to control exclusively, or to delegate control of, any settlement, litigation, Patent and Trademark Office proceeding, or other proceeding arising out of any such alleged infringement, challenge, or claim or otherwise relating to any Mark or Copyrighted Work. SFC or its Affiliate has the right to direct and control any administrative proceeding or litigation, or other adjudicative proceeding involving the Marks or Copyrighted Works, including any settlement thereof. In the event of any litigation relating to your use of the Marks or Copyrighted Works, you shall execute any and all documents and do such acts as may, in the opinion of SFC, be necessary to carry out such defense or prosecution, including, but not limited to, becoming a nominal party to any legal action. Except to the extent that such litigation is the result of your use of the Marks or Copyrighted Works in a manner inconsistent with the terms of this Agreement, SFC agrees to reimburse you for your associated costs.

7.8. Changes to the Marks. SFC reserves the right, in its sole discretion, to designate one or more new, modified or replacement Marks for your use and to require your use of any such new, modified or replacement Marks in addition to or in lieu of any previously designated Marks. You must comply with any such directive relating to the use of new, modified, or replacement Marks within 60 days following your receipt of our written notice to you.

8. SYSTEM, MANUAL, AND INFORMATION

8.1. Manual. SFC will provide you access to the Manual via our Intranet. You shall operate the Franchised Business in accordance with the standards, methods, policies, and procedures specified in the Manual. You acknowledge and agree that SFC's required standards exist to protect the System and the Marks, not for the purpose of establishing any control or duty to take control over the day-to-day operations of your Restaurant. The Manual contents will at all times remain the sole property of SFC. If any dispute arises as to the contents of the Manual, the terms of the master copy of the information contained in the Manual maintained by SFC will be controlling.

8.2. System Modification. You acknowledge that the System, the Manual, and the products and services offered by the Franchised Business may be modified, (such as, but not limited to, the addition, deletion, and modification of menu items, operating procedures, products, and services) from time to time by SFC. You agree to comply, at your expense, with all such modifications, including, without limitation, all requirements to implement the modifications, such as replacement or renovation of equipment, remodeling, redecoration, and modifications to existing improvements, including structural changes. SFC shall notify you of any such System changes and you shall

implement any System changes upon receipt of notice thereof from SFC and shall complete their implementation within such time as SFC may reasonably specify. For purposes of this Agreement, System changes shall include, without limitation, changes in any of the categories referred to in this Section 8.2. Further, SFC reserves the right to materially vary its standards or franchise agreement terms for any franchisee depending on the circumstances, including but not limited to, timing of the grant of the franchise, trade area/market variables, local business practices, population, or any other condition which SFC considers important to the successful operation of SUBMARINA® Stores, and you acknowledge that such variances may be necessary. You have no right to require SFC to disclose any variation or to grant the same or a similar variation to you.

8.3. **Confidentiality.** You and your Owners shall maintain the confidentiality of all Confidential Information. You shall use Confidential Information only in connection with the operation of the Franchised Business and shall divulge Confidential Information only to your employees and only on a need to know basis. This obligation survives expiration or termination of this Agreement.

9. ADVERTISING AND MARKETING

9.1. **General.** All of your promotional and marketing materials must be presented in a dignified manner and must conform to SFC's standards and specifications related to advertising, marketing, and trademark use. You shall submit to SFC samples of proposed promotional and marketing materials and notify SFC of the intended media before first publication or use. SFC shall use reasonable efforts to approve or disapprove proposed promotional and marketing materials within 15 days of their receipt. You may not use the promotional or marketing materials until SFC expressly approves the materials and the proposed media. Once approved, you may use the materials only in connection with the media for which they were approved. SFC may disapprove your promotional or marketing materials, or the media for which they were approved, at any time, and you must discontinue using any disapproved materials or media upon your receipt of written notice of disapproval. Additionally, at SFC's discretion, you must pay SFC, on demand, \$1,000 per occurrence for the use of any unauthorized marketing or advertising materials, which the parties agree is a reasonable estimation of the administrative and legal costs likely to be incurred by SFC as a result of such unauthorized use. This fee is in addition to and not in lieu of any other remedies available to SFC under this Agreement or applicable law.

9.2. **Initial Advertising and Marketing Campaign.** In addition to all other advertising and promotion obligations described in this Article 9, within 30 days of the Opening Date, you must conduct an initial advertising and marketing campaign to promote the opening of the Store. The initial advertising and marketing campaign must comply with SFC's Standards, which may include, without limitation, use of certain materials and media, the length of the promotion, and the amount spent. SFC must approve, in advance, all advertising items, methods, and media you use in connection with opening advertising program. You must submit to SFC an accurate accounting of all such expenditures upon our request.

9.3. Brand Development Fund.

9.3.1. Each month during the Term, you shall contribute to the Brand Development Fund ("Fund") the amount stated in the Summary Pages, unless otherwise required by SFC. You shall submit payment in the same manner and time frame as the Royalty Fee.

9.3.2. SFC has the right to use Fund monies, in its sole discretion, to pay for any and all advertising, marketing, promotions, and public relations activities that use or contain the Marks. Such expenses may include: creative development services (including creation (and related research) and modification of Store design and trade dress, logos, Marks, copyrights, and other intellectual property, menu design, graphics and vehicle wraps, and advertising and promotional items, including the cost of retiring expired or obsolete printed items and materials, photography services, and design software); preparing and procuring market studies, providing or obtaining marketing services (including, without limitation, new product development; conducting customer surveys, focus groups, and marketing-related mystery shops and customer interviews); employing advertising and/or public relations agencies; developing, producing, distributing and placing advertising (including, without limitation, preparing and conducting media advertising campaigns in various media, local Store advertising and promotion in a particular area or market, or for the benefit of a particular Store or Stores in connection with Store opening promotions or otherwise); conducting and administering in-Store promotions; preparing and executing direct mail advertising, and developing, producing, and purchasing point-of-sale advertising, menus and menu boards, and other sales aids and promotional items and materials); research and development (including, without limitation, purchase of equipment (including ovens), smallwares, and packaging required for new product testing and development, hiring culinary talent and/or engaging

culinary consultants, and intellectual property-related research and filings, including patents and Internet-based intellectual properties); developing, updating, and hosting SUBMARINA® Websites and Web-based platforms (including development of locator programs) and/or an intranet or extranet system; soliciting new franchises; obtaining sponsorships and endorsements; preparing and conducting sweepstakes and other promotions; developing, administering, and distributing coupons, certificates and stored value card programs, and the cost of products associated with the redemption of free coupons, gift certificates and stored value cards; developing and administering other customer loyalty programs; developing and administering online ordering platforms; providing and procuring public relations services; conducting public relations activities; charitable donations; and membership fees in international, national, regional, and/or local trade or other associations or organizations. From time to time, we may engage in initiatives, new or otherwise, relating to the brand development activities stated above, and in order to implement or maintain the new or existing initiatives, we may use Fund monies to pay for the initial and recurring costs of new or existing initiatives. SFC reserves the right to shift all or a portion of an initiative's recurring costs from the Fund to the franchisees, as authorized under this Agreement. SFC also may use Fund monies to reimburse itself for its costs of personnel and other administrative and overhead costs associated with providing the services described in this Section 9.3.2. The Fund may be administered by SFC or its designee.

9.3.3. The parties acknowledge that SFC owns all rights, and retains all copyrights, in all design and content developed using Fund monies, and that SFC will have sole control over the creative concepts, content, form, and media placement of all advertising and promotional materials developed with Fund monies, and the allocations of Fund monies to production, placement, and other costs. SFC will own all copyright in any works created using Fund monies. You acknowledge and agree that SFC is not obligated to expend Fund monies for placement of advertising in your trading area, or to ensure that the Franchised Business benefits directly or *pro rata* from the expenditure of Fund monies. SFC has no fiduciary duty to you or to any other person with respect to the collection or expenditure of Fund monies. Upon your reasonable request, SFC will provide you an annual statement of Fund contributions and expenditures.

9.3.4. In any fiscal year, SFC may spend on behalf of the Fund an amount greater or less than the aggregate contributions of all franchisees to the Fund in that year. The Fund may borrow money from SFC, its Affiliates, or others to cover deficits, if any, from time to time. If SFC or its Affiliates lend money to the Fund, SFC or its Affiliates may charge interest at an annual rate that is 1% greater than the rates SFC or its Affiliates pay its lenders. Although the Fund is intended to be perpetual, SFC may terminate the Fund at any time. The Fund will not be terminated, however, until all Fund monies have been spent as provided in this Section 9.3, or returned to the Fund contributors on the basis of their respective contributions. Any amounts contributed to the Fund that are not spent in the year they are collected will remain in the Fund for future expenditures.

9.4. Intentionally Deleted.

9.5. Local Advertising Expenditure. Each year you shall expend for local advertising purposes the amount of the Local Advertising Expenditure set forth in the Summary Pages. The expenditures must conform to SFC's standards and be documented to us on a quarterly basis in a format that we prescribe. Any amounts contributed to a franchisee advertising association pursuant to Section 9.6, below, will be credited toward satisfaction of your Local Advertising Expenditure. Notwithstanding the foregoing, upon not less than 30 days' notice to you, we may require that up to 50% of the Local Advertising Expenditure amount set forth in the Summary Pages be reallocated from the Local Advertising Expenditure requirement to your Fund contribution requirement. In that event, the total combined amounts that you must spend for contributions to the Fund and for Local Advertising Expenditures will remain the same.

Additionally, SFC reserves the right to require you to pay directly to SFC your required Local Advertising Expenditure via weekly contributions. Each quarter, we will reimburse you from these monies based upon the actual documented amount of Local Advertising Expenditure spent by you in that quarter. Any amount that is less than the then-current required Local Advertising Expenditure not spent by you for the fiscal year will be contributed to the Fund.

9.6. Franchisee Advertising Associations.

9.6.1. SFC may, from time to time, form local or regional advertising associations ("Association") to pay for the development, placement, and distribution of advertising for the benefit of Stores located in the geographic

region served by the Association. Any Association established by SFC will be operated solely as a conduit for the collection and expenditure of Association fees for the foregoing purposes.

9.6.2. If SFC forms an Association for the region in which the Store is located, you agree to participate in the Association pursuant to the terms of this Section 9.6., and you agree to pay the dues and other fees established by the members of the respective Association. You hereby grant SFC the right to collect your required Association contributions in the same manner as your Royalty Fee payments pursuant to Article 4. of this Agreement and contribute such payments to the Advertising Association on your behalf.

9.6.3. SFC has the exclusive right to create, dissolve, and merge each Association created, in its discretion, and to create and amend the organizational and governing documents related thereto, provided that such documents: **(a)** operate by majority vote, with each SUBMARINA® Store (including Stores owned by SFC or its Affiliates) entitled to one vote; **(b)** entitle SFC to cast one vote (in addition to any votes it may be entitled to because of its operation of Stores in the area served by the Association); **(c)** permit the members of the Association, by majority vote, to determine the amount of required contributions; and **(d)** provide that any funds left in the Association at the time of dissolution will be returned to the members in proportion to their contributions during the 12-month period immediately preceding termination.

9.6.4. You agree to be bound by all organizational and governing documents created by SFC and, at SFC's request, shall execute all documents necessary to evidence or affirm your agreement. The Association will begin operating on a date determined in advance by SFC, and the Association will reimburse SFC for all costs associated with forming the Association, including but not limited to attorneys' fees and state filing fees.

9.6.5. No advertising or promotional plans or materials may be used by the Association or furnished to its members without SFC's prior approval. All advertising plans and materials must conform to the Standards and must be submitted to SFC for approval according to the procedures set forth in Section 9.1. of this Agreement.

9.7. Loyalty Programs, Prize Promotions, Meal Deals, and Promotional Literature.

9.7.1. You shall participate in and offer to your customers: **(a)** all customer loyalty and reward programs; **(b)** all contests, sweepstakes, and other prize promotions; and **(c)** all meal deals, which SFC may develop from time to time. SFC will communicate to you in writing the details of each such program, promotion, and meal deal, and you shall promptly display all point-of-sale advertising and promotion-related information at such places within the Store as SFC may designate. You shall purchase and distribute all coupons, clothing, toys, and other collateral merchandise (and only the coupons, clothing, toys, and collateral merchandise) designated by SFC for use in connection with each such program, promotion, or meal deal.

9.7.2. If SFC develops or authorizes the sale of gift certificates and/or stored value cards, loyalty cards, and/or customized promotional receipts, you shall acquire and use all computer software and hardware necessary to process their sale and to process purchases made using them and be solely responsible for the service charges related to such processing. All proceeds from the sale of all gift certificates and stored value cards belong exclusively to SFC, and you shall remit the proceeds of such sales to SFC according to the procedures that SFC prescribes periodically. SFC shall reimburse or credit to you (at SFC's option) the redeemed value of gift cards and stored value cards accepted as payment for products and services sold by the Store. You are responsible for the accurate reporting of gift certificate and stored value card sales and the corresponding impact on Gross Sales. You have until 30 days after the end of our fiscal year to notify SFC of any errors you made in calculating Gross Sales as those errors relate to the reporting of gift certificate and stored value card sales.

9.7.3. You also shall display at the Store all promotional literature and information as SFC may reasonably require from time to time. This may include, among other things, displaying signage or other literature containing information about the SUBMARINA® franchise offering.

9.8. Participation in Marketing Programs. You shall at all times cooperate with SFC and other franchisees of SFC and shall actively participate in any and all sales, public relations, advertising, cooperative advertising, and purchasing programs or promotional programs (including, without limitation, product give-away promotions) which may be developed and implemented by SFC. Participation may include, without limitation, purchasing (at your expense) and using: **(a)** point of sale materials; **(b)** counter cards, displays, and give-away items promoting loyalty programs, prize promotions, movie tie-in promotions, and other marketing campaigns and programs; **(c)** product mix and ingredients for product giveaways; and **(d)** equipment necessary to administer loyalty programs and to prepare and print customized purchase receipts, coupons. SFC may collect Store-specific information relating to advertising and

marketing programs, including but not limited to customer data, but SFC is not required to share such information with you.

9.9. **Business Directory Listings.** You shall place and pay the cost of business listings in such print and online directories and categories, whether electronic or hard copy, as SFC may require from time to time. Amounts paid for business directory listings will not be credited toward any of your expenditures under this Article 9.

10. POS SYSTEM; ACCOUNTING AND RECORDS; TAXES

10.1. **POS System.** You shall acquire and use only the point of sale cash registers and computer systems and equipment that SFC prescribes for use by SUBMARINA® Stores (“**POS System**”) and adhere to SFC’s requirements for use, including without limitation accounting for all Gross Sales through the POS System. Requirements may include, among other things, connection to remote servers, off-site electronic repositories, and high speed Internet connections. SFC may, in its sole discretion, require you to add to your POS System memory, ports, and other accessories or peripheral equipment or additional, new, or substitute software, replace or upgrade your POS System (software and hardware) and other computers as SFC prescribes, and enter into maintenance agreements for the POS System and other computers. Because the POS System must be used solely for POS-related purposes that are set forth by the POS System provider and approved by us, you may elect to purchase a secondary computer for use at the Store for routine business functions and related software, such as Internet browsing, word processing, spreadsheet preparation, and emailing. SFC will provide you 90 days advance written notice of any change to its POS System requirements. You must acquire, install, and maintain such anti-virus and anti-spyware software as SFC requires, and you must adopt and implement such Internet user policies as SFC may prescribe for purposes of avoiding, blocking, and eliminating viruses and other conditions that interfere with operation of the POS System.

10.2. **Software.** You must: **(a)** use any proprietary software programs, system documentation manuals, and other proprietary materials that SFC requires in connection with the operation of the Store; **(b)** input and maintain in the POS System such data and information as SFC prescribes in the Manual, software programs, documentation, or otherwise; and **(c)** purchase new or upgraded software programs, system documentation manuals, and other proprietary materials at then-current prices whenever SFC adopts such new or upgraded programs, manuals, and materials system-wide. You must enter into all software license agreements, “terms of use” agreements, and software and hardware maintenance agreements, in the form and manner SFC prescribes, and pay all fees imposed thereunder.

10.3. **Independent Access.** SFC may independently poll Gross Sales and other information input and compiled by your POS System from a remote location. There is no limitation on SFC’s right to access this information. SFC may require that you connect to a Web-based application enabling independent access to the information on your POS System and other in-Store computer and camera systems. If SFC requires your connection to such an application, you agree to acquire all software licenses needed to use the application (which may require your payment of periodic subscription fees) and to install and use all hardware needed to connect to the application and to facilitate the exchange of electronic information as contemplated by this Section 10.3.

10.4. **Maintenance of Records.** You shall prepare and preserve for at least five years from the date of preparation complete and accurate books, records, and accounts according to generally accepted accounting principles and in the form SFC prescribes. Additionally, concurrently with the execution of this Agreement, you must provide SFC true and accurate copies of your charter documents and governing documents including Articles of Incorporation, Bylaws, Operating Agreement, Partnership Agreement, resolutions authorizing the execution hereof, and any amendments to the foregoing. You shall promptly provide such additional information as SFC may from time to time request concerning all persons who may have any direct or indirect financial interest in the Business Entity.

10.5. **Submission of Financial Statements and Tax Returns.** No later than March 31 of each calendar year, you shall provide to SFC: **(a)** a copy of the previous year’s annual profit and loss statements; **(b)** a copy of the previous year’s sales tax returns; and **(c)** if requested, a copy of your federal and state income tax returns for the previous year; provided, however, that if you are an individual franchisee, you may submit only those schedules to your personal tax returns which reflect the revenues and expenses of the Franchised Business.

10.6. **Submission of Performance Reports.** You must accurately report to SFC the Store’s Gross Sales and such other financial information as SFC may reasonably require using the procedures that SFC prescribes periodically. Reports will be due on the date prescribed by SFC and will be signed by an authorized representative, attesting to their accuracy. Within 30 days following the end of each calendar quarter, you must provide to SFC a copy of your profit and loss statements prepared according to generally accepted accounting principles and which accurately reflect your financial information for the applicable Accounting Periods. SFC may require that you submit the profit and loss

statements in a standardized format that we provide to all of our franchisees. You also must provide to SFC such other reports, computer back-up, and other information that SFC may reasonably request.

10.7. **Audit of Franchisee Records.** SFC or its designated agent has the right to audit, examine, and copy your books, records, accounts, and business tax returns at any time. If an inspection or audit reveals underpayment of amounts owed to SFC, you shall immediately pay the understated amount with interest as provided in Section 4.8. If an audit or inspection reveals your understatement of Gross Sales by 3% or more for any Accounting Period then, in addition to amounts due on the understatement and interest, you shall promptly reimburse SFC all costs and expenses that it incurred in connection with performing the audit or inspection (including travel, lodging and wage expenses, and attorneys' and accountants' fees).

10.8. **Use of Financial Information in Franchise Disclosure Document.** You acknowledge and agree that it may be in the best interest of the franchise system to share historical revenue and expense information with prospective franchisees. To that end, you hereby authorize SFC to publish information concerning the Store's Gross Sales and other information reported to SFC in its franchise disclosure document.

10.9. **Taxes.** You shall promptly pay all taxes due and owing based on your operation of the Store and the Franchised Business including, without limitation, sales taxes, income taxes, and property taxes.

10.10. **Authorization to Release Information.** You hereby authorize (and agree to execute any other documents deemed necessary to effect such authorization) all banks, financial institutions, businesses, suppliers, manufacturers, contractors, vendors, and other persons or entities with whom you do business in connection with your Franchised Business to disclose to SFC any financial information in their possession relating to you, the Store, or the Franchised Business, which SFC may request.

11. INDEPENDENT CONTRACTOR, INSURANCE, AND INDEMNIFICATION

11.1. **Independent Contractor.** The parties acknowledge and agree that you are operating the Franchised Business as an independent contractor. Nothing contained in this Agreement will create or be construed to create a partnership, joint venture, or agency relationship between the parties. Neither party has any fiduciary obligations to the other, or will be liable for the debts or obligations of the other. Neither party may bind the other, transact business in the other party's name, or in any manner make any promises or representations on behalf of the other party, unless otherwise agreed in writing, between them. SFC does not participate in the hiring, promoting, disciplining, or discharging of your employees or in setting or paying wages or benefits to your employees, and you acknowledge that SFC has no power, responsibility, or liability with respect to the hiring, promoting, disciplining, or discharging of employees or in setting or paying their wages. You shall conspicuously identify yourself and the Franchised Business in all dealings with your customers, contractors, suppliers, public officials, and others, as an independent franchisee of SFC, and shall place a conspicuous notice, in the form and at such place as SFC prescribes, notifying the public of such independent ownership. Additionally, you must communicate to all employees that you, not SFC, are their employer; and you must ensure that no payroll checks or other employment-related documents (such as job applications and W-2s) contain or reference the Marks or SFC's name. Each of the parties will file its own tax, regulatory, and payroll reports with respect to its respective employees and operations, saving and indemnifying the other party hereto of and from any liability of any nature whatsoever by virtue thereof.

11.2. Insurance Obligations.

11.2.1. You shall maintain in full force and effect at all times during the Term of this Agreement, at your expense, an insurance policy or policies protecting you, SFC, and its Affiliates and their respective partners, shareholders, directors, managers, agents, and employees, against any demand or claim with respect to personal and bodily injury, death, or property damage, or any loss, liability, or expense arising or occurring upon or in connection with the operation of the Franchised Business.

11.2.2. All policies must: **(a)** be written by insurer(s) licensed and admitted to write coverage in the state in which the Franchised Business is located and with a rating of "A" or better as set forth in the most recent edition of the A.M. Best Company's rating guide; **(b)** comply with SFC's written requirements at the time such policies are obtained, and **(c)** provide at least the types and minimum amounts of coverage specified below or as described within SFC's written notice to you of any changes to the requirements. All public liability and property damage policies must name SFC and its partners, affiliates, shareholders, directors, agents, and employees as additional insureds on a primary, non-contributory basis.

11.2.3. Such policies must include, at the minimum, the following coverage: **(a)** “all risk” property insurance, including business interruption insurance, customarily obtained by similar businesses in the Store’s principal trade area; **(b)** comprehensive general liability insurance, including products and contractual, in an amount of not less than \$2,000,000 per occurrence; **(c)** automobile liability coverage, including coverage of owned, non-owned, and hired vehicles with coverage in amounts not less than \$1,000,000 combined single limit; and **(d)** workers’ compensation insurance in amounts required by applicable law or, if permissible under applicable law, any legally appropriate alternative providing substantially similar compensation for injured workers satisfactory to SFC. SFC reserves the right to unilaterally modify the types of coverage and/or minimum coverage requirements set forth above as market or industry conditions warrant.

11.2.4. In connection with any and all insurance that you are required to maintain under this Section 11.2., you and your insurers shall agree to waive their rights of subrogation against SFC, and you shall provide evidence of such waiver in accordance with this Section 11.2.

11.2.5. Your obligation to obtain and maintain insurance must not be limited in any way by reason of any insurance which may be maintained by SFC, nor will your performance of that obligation relieve you of liability under the indemnity provisions set forth in Section 11.3. of this Agreement.

11.2.6. All public liability and property damage policies must contain a provision that SFC and its Affiliates, although named as additional insureds, must nevertheless be entitled to recover under such policies on any loss occasioned to SFC, or its Affiliates, partners, shareholders, officers, directors, agents, or employees by reason of your negligence.

11.2.7. At least 10 days prior to the time you are first required to carry insurance, and thereafter at least 30 days prior to the expiration of any policy, you shall deliver to SFC a certificate of insurance evidencing your compliance with this Article 11. Each certificate of insurance must expressly provide that no less than 30 days' prior written notice will be given to SFC in the event of material alteration to or cancellation or non-renewal of the coverages evidenced by such certificates.

11.2.8. If you fail to procure or maintain these minimum insurance requirements, SFC or its designee has the right (but is not required) to procure such insurance on your behalf. Such right will be in addition to and not in lieu of any other rights or remedies available to SFC. If this occurs, you shall reimburse SFC the cost of the premium upon demand, and also upon demand, pay a reasonable administrative fee as set forth in Section 4.10., above.

11.3. Indemnification. You shall indemnify and hold harmless to the fullest extent by law, SFC, its Affiliates, and their respective directors, officers, employees, shareholders, and agents, (collectively, “**Indemnitees**”) from any and all “**losses and expenses**” (as hereinafter defined) incurred in connection with any litigation or other form of administrative process, adjudicatory procedure, claim, demand, investigation, or formal or informal inquiry (regardless of whether same is reduced to judgment) or any settlement thereof, which arises directly or indirectly from, as a result of, or in connection with your employment relationships with your employees; the training you, your Owners, or any of your employees receive by us; your breach of this Agreement, and/or your operation of the Franchised Business including, but not limited to, claims arising out of or as a result of the maintenance and operation of vehicles or the Franchised Location (collectively, “**event**”), and regardless of whether the losses and expenses resulted from any strict or vicarious liability imposed by law on the Indemnitees; provided, however, that this indemnity will not apply to any liability arising from the gross negligence of Indemnitees (except to the extent that joint liability is involved, in which event the indemnification provided in this Agreement will extend to any finding of comparative negligence or contributory negligence attributable to you). For the purpose of this Section 11.3., the term “**losses and expenses**” will be deemed to include compensatory, exemplary, or punitive damages; fines and penalties; attorneys' fees; experts' fees; court costs; costs associated with investigating and defending against claims; settlement amounts; judgments; compensation for damages to SFC's reputation and goodwill; and all other costs associated with any of the foregoing losses and expenses. Under no circumstances will SFC be required or obligated to seek recovery from third parties or otherwise mitigate its losses in order to maintain a claim under this provision, and SFC's failure to seek such recovery or mitigate its loss will in no way reduce the amounts recoverable by SFC under this provision. You must give SFC prompt notice of any event of which you are aware, for which indemnification is required, and, at your expense and risk, SFC may elect to assume (but under no circumstance is obligated to undertake) the defense and/or settlement thereof, provided that SFC will seek your advice and counsel. Any assumption by SFC will not modify your indemnification obligation. SFC may, in its sole and absolute discretion, take such actions as it seems necessary and appropriate to investigate, defend, or settle any event or take other remedial

or corrective actions with respect thereof as may be, in SFC's sole and absolute discretion, necessary for the protection of the Indemnitees or the System. This provision survives termination or expiration of this Agreement.

12. TRANSFER OF INTEREST

12.1. Transfer by SFC. SFC may transfer or assign all or any part of its rights or obligations under this Agreement to any person or legal entity. With respect to any assignment which results in the subsequent performance by the assignee of all of SFC's obligations under this Agreement, the assignee shall expressly assume and agree to perform such obligations, and shall become solely responsible for all of SFC's obligations under this Agreement from the date of assignment. In addition, and without limitation to the foregoing, you expressly affirm and agree that SFC and/or its Affiliates may sell their assets, the Marks, the Copyrighted Works, or the System; may sell securities in a public offering or in a private placement; may merge, acquire other corporations, or be acquired by another corporation; and may undertake a refinancing, recapitalization, leveraged buy-out, or other economic or financial restructuring. With regard to any of the above sales, assignments and dispositions, you expressly and specifically waive any claims, demands or damages arising from or related to the loss of SFC's name, the Marks (or any variation thereof), the Copyrighted Works, the System, and/or the loss of association with or identification of Submarina Franchise of California, LLC as the franchisor under this Agreement. You specifically waive any and all other claims, demands, or damages arising from or related to the foregoing merger, acquisition, and other business combination activities including, without limitation, any claim of divided loyalty, breach of fiduciary duty, fraud, breach of contract, or breach of the implied covenant of good faith and fair dealing. You agree that SFC has the right, now or in the future, to purchase, merge, acquire, or affiliate with an existing competitive or non-competitive franchise network, chain, or any other business regardless of the location of that chain's or business' facilities, and to operate, franchise, or license those businesses and/or facilities as SUBMARINA® Stores operating under the Marks, the Copyrighted Works or any other marks following SFC's purchase, merger, acquisition, or affiliation, regardless of the location of these facilities (which you acknowledge may be proximate to the Franchised Business).

12.2. Transfer by Individual Franchisee to Business Entity for Convenience. If you are an individual, you may transfer your interest in this Agreement to a Business Entity for convenience of operation by signing SFC's standard form of assignment and assumption agreement if: **(a)** the Business Entity is formed solely for purposes of operating the Franchised Business; **(b)** you provide to SFC a copy of the Business Entity's formation and governing documents and a certificate of good standing from the jurisdiction under which the Business Entity was formed; **(c)** you and your Affiliates are in compliance with this Agreement and all other agreements with SFC or its affiliates; **(d)** you pay SFC its reasonable attorneys' fees; and **(e)** you and each Owner and guarantor execute a general release in a form satisfactory to SFC of any and all claims against SFC and its Affiliates and their respective officers, directors, managers, shareholders, agents, and employees in their corporate and individual capacities, including, without limitation, claims arising under federal, state, and local laws, rules, and ordinances; provided, however, that any release will not be inconsistent with any state law regulating franchising.

12.3. Transfer Among Owners; Transfer of Non-Controlling Interest. If you are a Business Entity, your Owners may transfer their ownership interests in the Business Entity among each other, and may transfer up to a Non-Controlling Interest in the Business Entity to one or more third parties if: **(a)** you have provided to SFC advance notice of the transfer; **(b)** you and your Affiliates are in compliance with this Agreement and all other agreements with SFC or its Affiliates; **(c)** you sign an amendment reflecting the new ownership; **(d)** each new Owner has signed a Guaranty and Personal Undertaking in the form of Attachment B-1; **(e)** you pay SFC its reasonable attorneys' fees; and **(f)** you and each Owner and guarantor execute a general release in a form satisfactory to SFC of any and all claims against SFC and its Affiliates and their respective officers, directors, managers, shareholders, agents, and employees in their corporate and individual capacities, including, without limitation, claims arising under federal, state, and local laws, rules, and ordinances; provided, however, that any release will not be inconsistent with any state law regulating franchising.

12.4. Transfer of Agreement; Transfer of the Franchised Business; Transfer of Controlling Interest. All other transfers (including any sale or transfer of your interest in this Agreement, the sale or transfer of all or substantially all of the assets of the Store, and the sale of a Controlling Interest in you if you are a Business Entity) require SFC's prior written consent. SFC will not unreasonably withhold its consent to a transfer, but may condition its consent on satisfaction of any or all of the following:

12.4.1. You have provided SFC the following at least 120 days prior to the proposed closing date of the proposed transfer: **(a)** written request for SFC's consent to the transfer; **(b)** payment of the non-refundable Transfer Fee; and **(c)** a copy of the proposed asset purchase/transfer agreements, including sale terms. The "**Transfer Fee**" is

non-refundable and is \$5,000 if the transferee is an existing franchisee of SFC, or \$7,500 if the transferee is not an existing franchisee of SFC.

12.4.2. The transferee has demonstrated to SFC's satisfaction that the transferee meets SFC's then-current educational, managerial and business standards; possesses a good moral character, business reputation, and credit rating; has the aptitude and ability to operate the Franchised Business; and meets SFC's then-current liquid and net worth requirements.

12.4.3. All of your accrued monetary obligations and all other outstanding obligations to SFC, its Affiliates, and your third-party suppliers are, or will be at the time of the transfer, current and fully paid and satisfied, and you must be in full compliance with this Agreement and any other agreements between you and SFC, its Affiliates, and your suppliers.

12.4.4. You or the transferee have refurbished the Store premises prior to the closing of the transfer such that the Store meets SFC's image, equipment, and POS System requirements for new SUBMARINA® Stores, or so that it meets SFC's then-current repair and maintenance standards, whichever SFC chooses at its sole discretion.

12.4.5. You and each Owner have executed a general release, in a form satisfactory to SFC, of any and all claims against SFC and its Affiliates and their respective officers, directors, shareholders, agents and employees in their corporate and individual capacities, including, without limitation, claims arising under federal, state, and local laws, rules, and ordinances; provided, however, that any release will not be inconsistent with any state law regulating franchising.

12.4.6. The transferee executes SFC's then-current form of Franchise Agreement, the terms of which may be materially different than the terms of this Agreement and may include, among other things, a different percentage royalty fee and different advertising obligations. The term of such agreement will be the remaining Term of this Agreement at the time of transfer. If the transferee is a Business Entity, then the transferee's Owners each must sign SFC's standard form of Guaranty and Personal Undertaking.

12.4.7. The transferee shall have complied with SFC's then-current initial training requirements.

12.4.8. If SFC introduced the buyer to you, you have paid all fees due SFC under its then-current franchise resale policy or program.

12.4.9. If SFC consents to the transfer contemplated by this Section 12.4., and if for any reason the transfer does not close, you must reimburse SFC for its reasonable attorneys' fees incurred in conjunction with the abandoned transfer.

12.4.10. If, for any reason, a requested transfer does not close and you desire to enter into the transfer process with a different transferee, all of the requirements set forth above will apply, including but not limited to your obligation to pay the Transfer Fee. SFC may, in its sole discretion, credit all or a portion of the previously-paid Transfer Fee to the replacement transfer, but is not obligated to do so. If SFC does not provide such credit, then you must pay the Transfer Fee as described in Section 12.4.1.

12.5. Transfers Void. Any purported transfer, by operation of law or otherwise, made without SFC's prior written consent will be considered null and void and will be considered a material breach of this Agreement.

12.6. Security Interest. You may grant a security interest in this Agreement or the franchise represented by this Agreement only to the limited extent permitted by Section 9-408 of the Uniform Commercial Code. Any such security interest may only attach to an interest in the proceeds of the operation of the Franchised Business and may not entitle or permit the secured party to take possession of or operate the Franchised Business or to transfer your interest in the franchise without SFC's consent.

12.7. Private or Public Offerings. If you are a Business Entity and you intend to issue equity interests in the Business Entity pursuant to a public or private offering, you must first obtain SFC's written consent, which consent will not be unreasonably withheld. You must provide to SFC for its review a copy of all offering materials (whether or not such materials are required by applicable securities laws) at least 60 days prior to such documents being filed with any government agency or distributed to investors. No offering will imply (by use of the Marks or otherwise) that SFC is participating in an underwriting, issuance or offering of your securities, and SFC's review of any offering shall be limited to ensuring compliance with the terms of this Agreement. SFC may condition its approval on satisfaction of any or all of the conditions set forth in Section 12.4. and on execution of an indemnity agreement, in a form prescribed by SFC, by you and any other participants in the offering. For each proposed offering, you shall pay

to SFC a retainer in an amount determined by SFC, which SFC shall use to reimburse itself for the reasonable costs and expenses it incurs (including, without limitation, attorneys' fees and accountants' fees) in connection with reviewing the proposed offering.

12.8. **Right of First Refusal.** If you receive a bona fide offer to purchase your interest in this Agreement or all or substantially all of the assets of the Store, or if any Owner receives a bona fide offer to purchase his or her equity interests in you, and you or such Owner wishes to accept such offer, you or the Owner must deliver to SFC written notification of the offer and, except as otherwise provided herein, SFC has option, exercisable within 30 days after receipt of such written notification, to purchase the seller's interest on the same terms and conditions offered by the third party. If the bona fide offer provides for the exchange of assets other than cash or cash equivalents, the bona fide offer must include the fair market value of the assets and you shall submit with the notice an appraisal prepared by a qualified independent third party evidencing the fair market value of such assets as of the date of the offer. Any material change in the terms of any offer prior to closing will constitute a new offer subject to the same right of first refusal by SFC as in the case of an initial offer. If SFC elects to purchase the seller's interest, closing on such purchase must occur by the later of: **(a)** the closing date specified in the third-party offer; or **(b)** within 60 days from the date of notice to the seller of SFC's election to purchase. SFC's failure to exercise the option described in this Section 12.8. will not constitute a waiver of any of the transfer conditions set forth in this Article 12.

12.9. **Transfer Upon Death or Incapacity.** Upon the death or permanent incapacity (mental or physical) of any person with an interest in this Agreement, in you, or in all or substantially all of the assets of the Franchised Business, the executor, administrator, or personal representative of such person shall transfer such interest to a third party approved by SFC within six months after such death or mental incapacity. Such transfers, including, without limitation, transfers by devise or inheritance, will be subject to the same conditions as an *inter vivos* transfer, except that the Transfer Fee will be waived. In the case of transfer by devise or inheritance, however, if the heirs or beneficiaries of any such person are unable to meet the conditions of this Article 12., the executor, administrator, or personal representative of the decedent shall transfer the decedent's interest to another party approved by SFC within six months, which disposition will be subject to all the terms and conditions for transfer contained in this Agreement. If the interest is not disposed of within such period, SFC may, at its option, terminate this Agreement, pursuant to Section 13.5.

12.10. **Non-Waiver of Claims.** SFC's consent to a transfer will not constitute a waiver of any claims it may have against the transferring party, and it will not be deemed a waiver of SFC's right to demand strict compliance with any of the terms of this Agreement, or any other agreement to which SFC and the transferor are parties.

13. DEFAULT AND TERMINATION

13.1. **Termination In the Event of Bankruptcy or Insolvency.** You shall be deemed to be in default under this Agreement, and all rights granted to you in this Agreement will automatically terminate without notice, if you become insolvent or make a general assignment for the benefit of creditors; if a petition in bankruptcy is filed by you or such a petition is filed and against you and you do not oppose it; if you are adjudicated as bankrupt or insolvent; if a bill in equity or other proceeding for the appointment of a receiver for you or other custodian for your business or assets is filed and consented to by you; if a receiver or other custodian (permanent or temporary) of your assets or property, or any part thereof, is appointed by any court of competent jurisdiction; if proceedings for a composition with creditors under any state or federal law is instituted by or against you; if a final judgment remains unsatisfied or of record for 30 days or longer (unless a *supersedeas* bond is filed); if you are dissolved; if execution is levied against your business or property; if judicial, non-judicial, or administrative proceedings to foreclose any lien or mortgage against the Franchised Location premises or assets or equipment is instituted against you and not dismissed within 30 days; or if the real or personal property of the Franchised Business is sold after levy thereupon by any sheriff, marshal, or constable.

13.2. **Termination With Notice and Without Opportunity To Cure.** SFC has the right to terminate this Agreement, which termination will become effective upon delivery of notice without opportunity to cure if: **(a)** your Operating Principal or District Manager fails to successfully complete training; **(b)** you fail to open the Store for business by the Opening Date; **(c)** you abandon the Franchised Business (which will be presumed if you cease operations for three consecutive days or more); **(d)** you lose any license required to operate the Franchised Business or you lose your right to occupy the Store premises; **(e)** you fail to relocate and open, or re-open, the Store that closed due to a Force Majeure event; **(f)** you or any Owner or District Manager are convicted of, or plead no contest to, a felony, a crime involving moral turpitude, or any other crime or offense that SFC believes is reasonably likely to have an adverse effect on the System; **(g)** there is any transfer or attempted transfer in violation of Article 12 of this Agreement; **(h)** you or any

Owner fails to comply with the confidentiality or noncompetition covenants in Section 15.1. of this Agreement; **(i)** you or any Owner has made any material misrepresentations in connection with your franchise application; **(j)** you fail to comply with notification requirements set forth in Sections 6.1.3. or 6.1.4. concerning investigations and Crisis Management Events; **(k)** you understate any payment to SFC by 3% or more, or understate any such payment in any amount, twice in any two-year period; **(l)** an imminent threat or danger to public health or safety results from the operation of the Franchised Business; **(m)** you knowingly maintain false books or records or submit any false reports or statements to SFC; **(n)** you offer unauthorized products or services from the Store premises or in conjunction with the Marks or Copyrighted Works; **(o)** you purchase items for which SFC has identified approved or designated supplier or distributor from an unapproved source; **(p)** you fail to pass two or more quality assurance inspections within any rolling 12-month period; **(q)** you violate SFC policies for Store operations, without authorization or permission, on two or more occasions within any rolling 12-month period, including without limitation failure to accurately account for all Gross Sales through the POS System; **(r)** you fail to participate in any advertising or marketing program pursuant to Sections 9.3., 9.4., 9.5., 9.6., or 9.7., or fail to maintain required hours of operation pursuant to Section 6.8. on two or more occasions without prior written permission, within any rolling 12-month period; or **(s)** SFC delivers to you three or more written notices of default pursuant to this Article 13 within any rolling 12-month period, whether or not the defaults described in such notices ultimately are cured.

13.3. **Termination With 10-Day Cure Period.** SFC has the right to terminate this Agreement, which termination will become effective upon delivery of written notice of termination, if you fail to cure the following defaults within 10 days after delivery of written notice: **(a)** failure to obtain or maintain required insurance coverage; **(b)** failure to pay any amounts due to SFC; **(c)** failure to pay any amounts due to the landlord of the Store's premises, your suppliers, or other trade creditors (unless such amount is subject to a bona fide dispute); **(d)** failure to pay any amounts for which SFC has advanced funds for or on your behalf, or upon which SFC is acting as guarantor of your obligations; **(e)** violation of any provision of this Agreement concerning the use and protection of the Marks or Copyrighted Works; or **(f)** violation of any provision of this Agreement concerning the preparation, service, appearance, or quality of SUBMARINA® products.

13.4. **Termination With 30-Day Cure Period.** Except as otherwise provided in this Article 13, SFC has the right to terminate this Agreement, which termination will become effective upon delivery of written notice of termination, if you fail to cure any curable default within 30 days after delivery of written notice.

13.5. **Termination Related to Death or Permanent Incapacity.** SFC has the right to terminate this Agreement if an approved transfer as required by Section 12.9. is not effected within the designated time frame following a death or permanent incapacity (mental or physical).

13.6. **Cross-Default.** Any default under any agreement between you and SFC or its Affiliates, which you fail to cure within any applicable cure period, will be considered a default under this Agreement and will provide an independent basis for termination of this Agreement.

13.7. **Additional Remedies.** In addition to, or in lieu of, termination of this Agreement, in its sole discretion, SFC may require the Store to be closed during any cure period relating to a default based on public health and safety concerns.

14. OBLIGATIONS UPON TERMINATION OR EXPIRATION

14.1. **Cease Use of Marks; Copyrighted Works; Cancellation of Fictitious Name; Assignment of Email Addresses, URLs, Domain Names, Internet Listings, Business Directory Listings.** Upon termination or expiration of this Agreement, you shall immediately cease all use of the Marks, Copyrighted Works, and Confidential Information. You shall cancel any assumed name registration containing the Marks. You shall, at SFC's option and request, assign to SFC all rights to all email addresses, URLs, domain names, Internet listings, Business Directory Listings, and Internet accounts relating to the Franchised Business. You hereby appoint SFC as your attorney-in-fact with full power and authority for the sole purpose of assigning these rights to SFC. This appointment will be deemed to be coupled with an interest and will continue in full force and effect until the termination or expiration of this Agreement.

14.2. **Assignment of Lease; De-Identification.** At SFC's request, you shall assign to SFC or its designee your interest in the lease, including your interest in all leasehold improvements, without additional compensation. If SFC does not request assignment of the lease before or as of the date of expiration or termination of this Agreement, then within 10 days after termination or expiration of this Agreement, you shall modify the Store premises (including, without limitation, changing the color scheme and other distinctive design features SFC requires and changing and assigning to SFC the telephone numbers) as may be necessary to distinguish the appearance of the Franchised Location

from that of other SUBMARINA® Stores, and shall make such specific additional changes to the Franchised Location as SFC may reasonably request for that purpose. SFC shall also have the right, at its option and at your expense, to enter the Store premises and take all actions necessary to de-identify the premises as a SUBMARINA® Store, including, but not limited to, removing all signs, advertising materials, displays, proprietary equipment and inventory, and any other items which display the Marks or are indicative of SUBMARINA® trade dress. Such costs incurred due to SFC's de-identification efforts must be paid by you immediately upon notice.

14.3. Return of Manual and Other Confidential Information. You shall immediately deliver to SFC any hardcopies or downloaded electronic copies of the Manual and all other manuals, records, correspondence, files, and any instructions containing Confidential Information relating to the operation of the Franchised Business which are in your possession; and all copies thereof (all of which are acknowledged to be the property of SFC).

14.4. SFC's Right to Purchase Tangible Assets. SFC has the option to purchase any or all of the Store's furniture, fixtures, equipment, and interior and exterior signs at the lesser of your cost or then-current fair market value and may set off against the purchase price any amounts that you owe SFC. SFC shall exercise its option by written notice to you, delivered on or before the date of expiration or termination of this Agreement.

14.5. Trademark Infringement. If you fail to comply with a written notice of termination sent by SFC and a court later upholds such termination of this Agreement, if such termination was disputed by you, then your operation of the Store, from and after the date of termination stated in such notice, will constitute willful trademark infringement and unfair competition by you, and you shall be liable to SFC for damages resulting from such infringement in addition to any fees paid or payable hereunder, including, without limitation, any profits which you derived from such post termination operation of the Store.

15. COVENANTS

15.1. Noncompetition During Term of Agreement. You and each Owner acknowledge that you and each Owner will receive valuable specialized training and Confidential Information, including, without limitation, information regarding the operational, sales, promotional, and marketing methods and techniques and trade secrets of SFC and the System. You and each Owner covenant and agree that during the Term of this Agreement, except as otherwise approved in writing by SFC, you and, if applicable, such Owner, will not, either directly or indirectly, for yourselves, or through, on behalf of, or in conjunction with any person, or legal entity:

15.1.1. Divert or attempt to divert any present or prospective customer of a SUBMARINA® Store to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System.

15.1.2. Own, maintain, advise, operate, engage in, be employed by, make loans to, invest in, provide any assistance to, or have any interest in (as owner or otherwise) or relationship or association with, any store, shop, or fast casual, quick service, or full service restaurant, or retail outlet of any type, that offers as a primary menu item or mix of menu items, cold or toasted sandwiches, other than a SUBMARINA® Store operated pursuant to a then-currently effective Franchise Agreement with SFC, at any location within the United States, its territories or commonwealths, or any other country, province, state or geographic area in which SFC or its Affiliates have used, sought registration of or registered the Marks or similar marks or operate or license others to operate a business under the Marks or similar marks.

15.2. Noncompetition After Expiration or Termination of Agreement. Commencing upon the later of: (a) a transfer permitted under Article 12 of this Agreement, expiration of this Agreement (without renewal), or termination of this Agreement (regardless of the cause for termination); or (b) a final court order (after all appeals have been taken) with respect to any of the foregoing events or with respect to enforcement of this Section 15.2, and continuing for an uninterrupted period of two years thereafter, you shall not either directly or indirectly, for yourselves, or through, on behalf of, or in conjunction with any person, persons, or legal entity, own, maintain, advise, operate, engage in, be employed by, make loans to, invest in, provide any assistance to, or have any interest in (as an owner or otherwise) or relationship or association with any store, shop, or fast casual, quick service, or full service restaurant, or retail outlet of any type, that offers as a primary menu item or mix of menu items cold or toasted sandwiches, other than a SUBMARINA® Store operated pursuant to a then-currently effective Franchise Agreement with SFC, that: (i) is, or is intended to be, located at the location of the former Franchised Location; (ii) is within a one-mile radius of the former Franchised Location; or (iii) is within a one-mile radius of any other Store operating under the System and Marks, that is in existence or under development at any location within the United States, its territories, or commonwealths, or any other country, province, state, or geographic area in which SFC or its Affiliates have used,

sought registration of, or registered the Marks or similar marks, or operate or license others to operate a business under the Marks or similar marks, at the time of such expiration, termination, or transfer. If any Owner ceases to be an Owner of the Franchisee for any reason during the Term of this Agreement, the foregoing covenant will apply to the departing Owner for a two-year period beginning on the date such person ceases to meet the definition of an Owner. The time periods relating to the obligations described in this Section 15.2. will be tolled during any period of noncompliance.

15.3. Additional Provisions. The parties acknowledge and agree that SFC has the right, in its sole discretion, to reduce the scope of any covenant set forth in Sections 15.1. and 15.2., or any portion thereof, without your consent or the consent of any Owner, effective immediately upon delivery of written notice to the affected party; and you and each Owner agree that such person shall comply forthwith with any covenant as so modified. You and each Owner expressly agree that the existence of any claims you may have against SFC, whether or not arising from this Agreement, will not constitute a defense to SFC's enforcement of the covenants in this Article 15. You agree to pay all costs and expenses (including reasonable attorneys' fees) incurred by SFC in connection with the enforcement of this Article 15.

15.4. Covenants from Individuals. Each individual who attends SFC's training program, or whom SFC designates, must sign a confidentiality and noncompetition agreement substantially in the form attached as Attachment B-2 to this Agreement, and you are responsible for ensuring compliance with such agreement.

15.5. Breach of Covenants Causes Irreparable Injury. You acknowledge that your violation of any covenant of this Article 15 would result in irreparable injury to SFC for which no adequate remedy at law may be available, and you consent to the issuance of, and agree to pay all court costs and reasonable attorneys' fees incurred by SFC in obtaining, without the posting of any bond, an *ex parte* or other order for injunctive or other legal or equitable relief with respect to such conduct or action.

15.6. Exception for Publicly Held Companies. The foregoing restrictions will not apply to your ownership or any Owner's ownership of less than a 5% beneficial interest in the outstanding equity securities of any company registered under the Securities Act of 1933 or the Securities Exchange Act of 1934.

15.7. Improvements. If you or any of your Owners or employees develop any new concept, process, or improvement in the development of any Store under this Agreement, you agree to promptly notify SFC and provide SFC with all related information, as determined by SFC in its sole discretion, without compensation. Any such concept, process, or improvement will become SFC's sole property, and SFC shall be the sole owner of all patents, patent applications, and other intellectual property rights related thereto. You, your Owners, and employees hereby: **(a)** assign, waive, and release to SFC any rights you or they may have or acquire, including the right to modify such concept, process, or improvement; **(b)** agree to assist SFC in obtaining and enforcing the intellectual property rights to any such concept, process, or improvement in any and all countries and further agree to execute and provide SFC with all necessary documentation for obtaining and enforcing such rights; **(c)** irrevocably designate and appoint SFC as their agent and attorney-in-fact to execute and file any such documentation and to do all other lawful acts to further the prosecution and issuance of patents or other intellectual property right related to any such concept, process, or improvement; and **(d)** grant to SFC a worldwide, perpetual, non-exclusive, fully-paid license to use and sublicense the use of the concept, process, or improvement to the extent such use or sublicense would, absent this Agreement, directly or indirectly infringe their rights therein, if any provision of this Section 15.7. is found to be invalid or otherwise unenforceable.

16. REPRESENTATIONS

16.1. Representations of SFC. SFC represents and warrants that: **(a)** SFC is duly organized and validly existing under the law of the state of its formation; **(b)** SFC is duly qualified and authorized to do business in each jurisdiction in which its business activities or the nature of the properties it owns requires such qualification; and **(c)** the execution of this Agreement and the performance of the transactions contemplated by this Agreement are within SFC's corporate power and have been duly authorized.

16.2. Representations of Franchisee.

16.2.1. You represent and warrant that the ownership information set forth in the Summary Pages is accurate and complete in all material respects, and you hereby agree to notify SFC in writing prior to any change in the ownership information set forth in the Summary Pages, and in compliance with the transfer requirements of Article 12 of this Agreement. You further represent and warrant to SFC that: **(a)** you are duly organized and validly existing under the law of the state of your formation; **(b)** you are duly qualified and authorized to do business in each

jurisdiction in which your business activities or the nature of the properties you own require such qualification; (c) your corporate charter or written partnership or limited liability company agreement, as applicable, will at all times provide that your activities are confined exclusively to the operation of the Franchised Business; and (d) neither you nor any of your Affiliates or Owners own, operate, or have any financial or beneficial interest in any business that is the same as or similar to a SUBMARINA® Store; and (e) the execution of this Agreement and the performance of the transactions contemplated by this Agreement are within your corporate power, or if you are a partnership or a limited liability company, are permitted under your written partnership or limited liability company agreement and have been duly authorized.

16.2.2. You acknowledge that you have conducted an independent investigation of the SUBMARINA® franchise opportunity and recognize that the business venture contemplated by this Agreement involves business risks and that its success will be largely dependent on your ability as an independent business person.

16.2.3. Except for representations contained in SFC's Franchise Disclosure Document provided to you in conjunction with this franchise offering, you represent that neither SFC nor its agents or representatives have made any representations, and you have not relied on representations made by SFC or its agents or representatives, concerning actual or potential Gross Sales, expenses, or profits of a SUBMARINA® Store.

16.2.4. You acknowledge that you have received a complete copy of SFC's Franchise Disclosure Document at least 14 calendar days before you signed this Agreement or paid any consideration to SFC for your franchise rights.

16.2.5. You acknowledge that you have read and that you understand the terms of this Agreement and its attachments and that you have had ample time and opportunity to consult with an attorney or business advisor of your choice about the potential risks and benefits of entering into this Agreement.

16.2.6. You understand that you will receive no territorial protection and that SFC and our Affiliates may engage in businesses that compete with your Store(s).

16.2.7. You hereby warrant and represent that neither you nor your Owners, officers, directors, managers, partners, agents, or employees, or their respective interests therein is now (nor will be during the term of this Agreement) identified, either by name or an alias, pseudonym, or nickname, on any of the lists of restricted or denied parties maintained by the United States government, including:

(a) "Denied Persons List" maintained by the U.S. Commerce Department's Bureau of Industry and Security (<http://www.bis.doc.gov/dpl/Default.shtml>);

(b) "Unverified List" maintained by the U.S. Commerce Department's Bureau of Industry and Security (http://www.bis.doc.gov/Enforcement/UnverifiedList/unverified_parties.html);

(c) "Entity List" maintained by the U.S. Commerce Department's Bureau of Industry and Security (<http://www.bis.doc.gov/Entities/Default.html>);

(d) "Specially Designated Nationals" or "Blocked Persons" maintained by the U.S. Treasury Department's Office of Foreign Assets Control (www.treas.gov/offices/enforcement/ofac/);

(e) "Debarred List" maintained by the Department of State (<http://pmddtc.state.gov/compliance/debar.html>); and

(f) "Nonproliferation Sanctions" maintained by the Department of State (<http://www.state.gov/t/isn/c15231.html>).

The foregoing constitutes continuing representations and warranties, and you agree to immediately notify SFC 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.

16.2.8. You further represent and warrant that neither you nor any of your Owners, officers, directors, managers, partners, agents, or employees has violated (nor will violate during the term of this Agreement) any law prohibiting 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 U.S. Patriot Act (<http://epic.org/privacy/terrorism/hr3162.html>), U.S. Executive Order 13224 (<http://www.treasury.gov/resource-center/sanctions/Programs/Documents/terror.pdf>), or any similar law.

17. NOTICES

17.1. **Notices.** All notices or demands must be in writing and must be served in person, by Express Mail, by certified mail; by private overnight delivery; or by facsimile or other electronic system (such as email). Service will be deemed conclusively made; **(a)** at the time of service, if personally served; **(b)** 24 hours (exclusive of weekends and national holidays) after deposit in the United States mail, properly addressed and postage prepaid, if served by Express Mail; **(c)** upon the earlier of actual receipt or three calendar days after deposit in the United States mail, properly addressed and postage prepaid, return receipt requested, if served by certified mail; **(d)** 24 hours after delivery by the party giving the notice, statement, or demand if by private overnight delivery; and **(e)** at the time of transmission by facsimile or other electronic transmission, if such transmission occurs prior to 5:00 p.m. Central Time on a Business Day and a copy of such notice is mailed by certified mail within 24 hours after the transmission. Notices and demands will be given to the respective parties at the addresses set forth on the Summary Pages, unless and until a different address has been designated by written notice to the other party. Either party may change its address for the purpose of receiving notices, demands and other communications as in this Agreement by providing a written notice given in the manner aforesaid to the other party.

18. CONSTRUCTION OF AGREEMENT; MISCELLANEOUS

18.1. **Entire Agreement.** This Agreement, and any other agreements executed by the parties concurrently with the parties' execution of this Agreement, represents the entire fully integrated agreement between the parties and supersedes all other negotiations, agreements, representations, and covenants, oral or written. Notwithstanding the foregoing, nothing in this Agreement will disclaim or require you to waive reliance on any representation that SFC made in the Franchise Disclosure Document (including its exhibits and amendments) that SFC delivered to you in connection with this franchise offering. Except for those changes permitted to be made unilaterally by SFC hereunder, no amendment, change, or variance from this Agreement will be binding on either party unless mutually agreed to in writing by the parties and executed by their authorized officers or agents.

18.2. **No Waiver.** No waiver or modification of this Agreement or of any covenant, condition, or limitation herein contained will be valid unless the same is made in writing and duly executed by the party to be charged therewith. No evidence of any waiver or modification will be offered or received in evidence in any proceeding, arbitration, or litigation between the parties arising out of or affecting this Agreement, or the rights or obligations of any party hereunder, unless such waiver or modification is in writing, duly executed as aforesaid.

18.3. **Severability.** The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of any other provision of this Agreement.

18.4. **Survival of Terms.** Any provision or covenant of this Agreement which expressly or by its nature imposes obligations beyond the expiration or termination of this Agreement will survive such expiration or termination.

18.5. **Definitions and Captions.** Unless otherwise defined in the body of this Agreement, capitalized terms have the meaning ascribed to them in Attachment A ("Glossary of Additional Terms"). All captions in this Agreement are intended for the convenience of the parties, and none will be deemed to affect the meaning or construction of any provision of this Agreement.

18.6. **Persons Bound.** This Agreement will be binding on the parties and their respective successors and assigns. Each Owner shall execute the Guaranty and Personal Undertaking attached as Attachment B-1. Failure or refusal to do so will constitute a breach of this Agreement. You and each Owner shall be joint and severally liable for each person's obligations hereunder and under the Guaranty and Personal Undertaking.

18.7. **Rules of Construction.** Neither this Agreement nor any uncertainty or ambiguity in this Agreement shall be construed or resolved against the drafter of this Agreement, whether under any rule of construction or otherwise. Terms used in this Agreement shall be construed and interpreted according to their ordinary meaning. If any provision of this Agreement is susceptible to two or more meanings, one of which would render the provision enforceable and the other(s) which would render the provision unenforceable, the provision will be given the meaning that renders it enforceable.

18.8. **Timing.** Time is of the essence with respect to all provisions in this Agreement. Notwithstanding the foregoing, if performance of either party is delayed because of a Force Majeure, the applicable deadline for performance will be extended for a period commensurate with the Force Majeure, but not to exceed 12 months.

18.9. **Business Judgment Rule.** Whenever SFC reserves discretion in a particular area or where SFC agrees to exercise its rights reasonably or in good faith, SFC will satisfy its obligations whenever it exercises reasonable business judgment in making such decision or exercising such rights. SFC's decisions or actions will be deemed to be the result of reasonable business judgment, even if other reasonable or even arguably preferable alternatives are available, if such decision or action is intended, in whole or in part, to promote or benefit the System, generally, even if the decision or action also promotes SFC's financial or other individual interest.

18.10. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which together will constitute one agreement.

19. APPLICABLE LAW; DISPUTE RESOLUTION

19.1. **Choice of Law.** This Agreement and all claims arising out of or related to this Agreement or the parties' relationship created hereby will be construed under and governed by the laws of the State of Texas except for Texas conflict of law rules. Any law regulating the offer or sale of franchises, business opportunities, or similar interests or governing the relationship between franchisors and franchisees will not apply unless its jurisdictional requirements are independently met.

19.2. Mediation.

19.2.1. The parties acknowledge that during the Term and any extensions of this Agreement certain disputes may arise that the parties are unable to resolve, but that may be resolvable through mediation. To facilitate such resolution, SFC, you, and each Owner agree to submit to mediation any claim, controversy, or dispute between SFC or its Affiliates (and SFC's and its Affiliates' respective owners, officers, directors, agents, representatives, and/or employees) and you or your Affiliates (and your Owners, agents, representatives, and/or employees) arising out of or related to: (a) this Agreement or any other agreement between SFC and you; (b) SFC's relationship with you; or (c) the validity of this Agreement or any other agreement between SFC and you, to bringing such claim, controversy or dispute in a court or before any other tribunal.

19.2.2. The mediation will be conducted by a mediator agreed upon by SFC and you. If agreement cannot be reached within 15 days after either party has notified the other of its desire to seek mediation, then mediation will occur with the American Arbitration Association or any successor organization ("AAA") in accordance with its rules governing mediation. Mediation will be held at the offices of the AAA in the city where SFC's principal business office is located at the time of the mediation. The costs and expenses of mediation paid to the AAA or to the mediator will be paid equally by the parties. All other mediation-related expenses, including but not limited to, attorneys' fees and travel expenses, will be paid by the party which incurred such expense.

19.2.3. If the parties are unable to resolve the claim, controversy, or dispute within 90 days after the mediator has been chosen, then, unless such time period is extended by written agreement of the parties, either party may proceed with arbitration pursuant to Section 19.3. The parties agree that statements made during such mediation proceeding will not be admissible for any purpose in any subsequent legal proceeding.

19.2.4. Notwithstanding the foregoing provisions of this Section 19.2., the parties' agreement to mediate will not apply to controversies, disputes, or claims relating to or based on amounts owed to SFC pursuant to this Agreement, the Marks, Copyrighted Works, or SFC's Confidential Information. Moreover, regardless of this mediation agreement, SFC and you each have the right in a proper case to seek temporary restraining orders and temporary or preliminary injunctive relief in any court of competent jurisdiction.

19.3. Arbitration.

19.3.1. Any dispute, controversy, or claim arising out of or relating to this Agreement and the relationships created hereby that are not solved during the mediation process described in Section 19.2. must be resolved by arbitration. The arbitration must be administered in accordance with the Commercial Rules of the AAA. The Arbitrator must be a person experienced in food service franchising or franchise law who has no prior business or professional relationship with either party. All matters relating to arbitration will be governed by the Federal Arbitration Act (9 U.S.C. §§ 1 et seq.) ("FAA"). Judgment upon the arbitrator's award may be entered in any court of competent jurisdiction, and the arbitrator must state in writing the reasoning upon which the award is based. The costs and expenses of arbitration paid to the AAA or to the arbitrator will be paid equally by the parties, unless the rules for special hearings require otherwise. All other arbitration-related expenses, including but not limited to attorneys' fees and travel expenses, will be paid by the party which incurred such expense. Notwithstanding the foregoing, the

prevailing party in any matter brought pursuant to this Section 19.3. will be entitled to recover all fees and costs as set forth in Section 19.11.

19.3.2. Arbitration will be conducted in the city in which SFC maintains its principal business office at the time of the arbitration. Arbitration will be conducted on an individual, not a class-wide basis, and an arbitration proceeding between the parties and their respective Owners, officers, directors, agents, and/or employees may not be consolidated with any other arbitration proceeding between SFC and any other person. The arbitrator has no power or authority to award punitive damages.

19.3.3. Any disputes concerning the enforceability or scope of this arbitration provision must be resolved pursuant to the FAA, and the parties agree that the FAA preempts any state law restrictions (including the site of the arbitration) on the enforcement of this arbitration provision and that arbitration will be conducted as provided for in this Section 19.3. If, prior to an Arbitrator's final decision, either you or SFC commences an action in any court for a claim that arises out of or relates to this Agreement (except for the purpose of enforcing this arbitration provision or as otherwise permitted by this Agreement), the party bringing the action in court will be responsible for the other party's expenses of enforcing this arbitration provision, including court costs, arbitration filing fees, and other costs and attorneys' fees.

19.3.4. If you institute any claim subject to this arbitration proceeding in any court, and SFC succeeds in a motion to compel arbitration of the claim, you must reimburse SFC its reasonable attorneys' fees and costs in defending the action and in its motion to compel arbitration.

19.3.5. You shall not assert any claim or cause of action against us, our officers, directors, shareholders, employees, or affiliates after two years following the event giving rise to such claim or cause of action.

19.3.6. Notwithstanding the foregoing provisions of this Section 19.3., the parties' agreement to arbitrate will not apply to controversies, disputes, or claims related to or based on amounts owed to SFC pursuant to this Agreement, the Marks, or SFC's Confidential Information. Moreover, regardless of this arbitration agreement, SFC and you each have the right in a proper case to seek temporary restraining orders and temporary or preliminary injunctive relief in any court of competent jurisdiction.

19.3.7. Notwithstanding the foregoing, SFC has the right to apply to any court of competent jurisdiction for injunctive relief to prevent continued or threatened harm while arbitration is pending. You and your Owners irrevocably consent to personal jurisdiction in the federal and state courts that service the county where SFC's principal business office is located, for this purpose.

19.4. VENUE. THE PARTIES AGREE THAT ANY ACTION BROUGHT BY EITHER PARTY AGAINST THE OTHER IN ANY COURT, WHETHER FEDERAL OR STATE, SHALL BE BROUGHT WITHIN THE STATE OR FEDERAL JUDICIAL DISTRICT COURTS IN WHICH SFC'S PRINCIPAL BUSINESS OFFICE IS LOCATED; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION WHICH INCLUDES INJUNCTIVE RELIEF OR OTHER EXTRAORDINARY RELIEF, YOU OR SFC MAY BRING SUCH ACTION IN ANY COURT IN ANY STATE WHICH HAS JURISDICTION, AND THE PARTIES HEREBY WAIVE ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION.

19.5. Nonexclusivity of Remedy. No right or remedy conferred upon or reserved to SFC or you by this Agreement is intended to be, nor will be deemed, exclusive of any other right or remedy in this Agreement or by law or equity provided or permitted, but each will be cumulative of every other right or remedy.

19.6. WAIVER OF JURY TRIAL. SFC AND YOU IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER OF THEM AGAINST THE OTHER, WHETHER OR NOT THERE ARE OTHER PARTIES IN SUCH ACTION OR PROCEEDING.

19.7. WAIVER OF PUNITIVE DAMAGES. THE PARTIES HEREBY WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY RIGHT TO OR CLAIM OF ANY PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER AND AGREE THAT IN THE EVENT OF A DISPUTE BETWEEN THEM EACH SHALL BE LIMITED TO THE RECOVERY OF ANY ACTUAL DAMAGES SUSTAINED BY IT.

19.8. **RIGHT TO SEEK ACTUAL DAMAGES.** WITHOUT LIMITING ANY RIGHTS SFC HAS PURSUANT TO THIS AGREEMENT, OR BY LAW, STATUTE, OR IN EQUITY, IF THIS AGREEMENT TERMINATES PURSUANT TO ANY PROVISION OF ARTICLE 13., THEN SFC HAS THE RIGHT TO SEEK FROM YOU AND YOUR OWNERS ACTUAL DAMAGES, INCLUDING WITHOUT LIMITATION, DAMAGES RELATING TO SFC'S LOST FUTURE ROYALTY FEE AND FUND CONTRIBUTIONS.

19.9. **Right to Injunctive Relief.** Nothing contained in this Agreement will bar SFC's right to seek injunctive relief from any court of competent jurisdiction; and you agree to pay all costs and reasonable attorneys' fees incurred by SFC in obtaining such relief.

19.10. **Release of Claims Under Prior Agreements.** By executing this Agreement, you, on behalf of your Business Entity and Owners, hereby release and discharge SFC and its Affiliates and their members, officers, directors, employees, and agents, from any and all claims relating to or arising under any Franchise Agreement or any other agreement between you and SFC or its Affiliates that was executed prior to the date of this Agreement, including, but not limited to, any and all claims, whether presently known or unknown, suspected or unsuspected, arising under any and all franchise disclosure, securities, antitrust, and/or deceptive trade practices laws, whether federal or state.

19.11. **Attorneys' Fees.** If either party commences a legal action against the other party arising out of or in connection with this Agreement, the prevailing party shall be entitled to have and recover from the other party its reasonable attorneys' fees and costs of suit.

FRANCHISOR:

Submarina Franchise of California, LLC
a Texas limited liability company

By: _____

Name: _____

Title: _____

FRANCHISEE:

By: _____

Name: _____

Title: _____

**STATE SPECIFIC AMENDMENTS
TO SUBMARINA FRANCHISE OF CALIFORNIA, LLC FRANCHISE AGREEMENT**

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
CALIFORNIA AMENDMENT TO FRANCHISE AGREEMENT

For purposes of complying with the requirements of California law, including the California Franchise Investment Law, CAL. CORP. CODE Section 31000 *et seq.*, and the California Franchise Relations Act, CAL. BUS. & PROF. CODE Section 20000 *et seq.*, Submarina Franchise of California, LLC (“**Franchisor**”) and _____ (“**Franchisee**”) hereby amend the Franchise Agreement between them dated _____ (“**Agreement**”) as follows, to the extent the Agreement contains provisions that are inconsistent with the following:

1. California Business and Professions Code Sections 20000 through 20043 provide rights to franchisees concerning termination or non-renewal of a franchise. If the Agreement contains a provision that is inconsistent with California law, California law will control.
2. The Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 *et seq.*).
3. The Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.
4. The Agreement requires binding arbitration. The arbitration will occur at Franchisor’s then-current principal place of business with the costs being borne by equally by the parties, unless the rules for special hearings require otherwise. All other arbitration-related expenses, including but not limited to attorneys’ fees and travel expenses, will be paid by the party which incurred such expense. The prevailing party in any matter brought pursuant to the dispute resolution provisions of the Agreement will be entitled to recover all fees and costs as set forth in the Agreement. Franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.
5. The Agreement requires application of the laws of the state of Texas. This provision may not be enforceable under California law.
6. Each provision of this Amendment will be effective only to the extent that the jurisdictional requirements of California law applicable to the provisions are met independently of this Amendment. This Amendment will have no force or effect if such jurisdictional requirements are not met.
7. The following language and Sections are removed from the Franchise Agreement, Attachment B-1 of the Franchise Agreement (Guaranty and Personal Undertaking) and Exhibit C of the disclosure document (General Release):
 - A. In Section 3.2 of the Franchise Agreement, the language, “SFC’s approval of a site is not an assurance that the Store will achieve a certain sales volume or level of profitability.”
 - B. Sections 16.2.2, 16.2.3, 16.2.4, 16.2.5, 16.2.6 and 19.10 of the Franchise Agreement.
 - C. Section 1 of Attachment B-1 (Guaranty and Personal Undertaking).
 - D. Sections 3 and 4 of Exhibit C (General Release).
8. 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 by any franchisor, franchise seller, or other person acting on behalf of franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

[signature page follows]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized representative as of the date indicated below.

FRANCHISOR:

Submarina Franchise of California, LLC
a Texas limited liability company

FRANCHISEE:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE AGREEMENT

ATTACHMENT A
GLOSSARY OF ADDITIONAL TERMS

“Account” means your commercial bank operating account.

“Affiliate” means an affiliate of a named person identified as any person or entity that is controlled by, controlling, or under common control with such named person.

“Agreement” means the Franchise Agreement.

“Business Day” means each day other than a Saturday, Sunday, U.S. holiday or any other day on which the Federal Reserve is not open for business in the United States.

“Business Entity” means any person with the power to enter into contracts, other than a natural person. The term includes a corporation, limited liability company, limited partnership, and trust.

“Certified Training Store” means a Store owned by a franchisee that provides training to other franchisees and that has met SFC’s criteria to be designated as a Certified Training Store.

“Confidential Information” means all trade secrets, the Standards, and other elements of the System; all customer information; all information contained in the Manual; SFC’s proprietary recipes and standards and specifications for product preparation, packaging and service; financial information; marketing data; vendor and supplier information; all other knowledge, trade secrets, or know-how concerning the methods of operation of the Franchised Business which may be communicated to you, or of which you may be apprised, by virtue of their operation under the terms of the Franchise Agreement, and all other information that SFC designates.

“Controlling Interest” means: **(a)** if you are a corporation or a limited liability company, that the Owners, either individually or cumulatively **(i)** directly or indirectly own at least 50% of the shares of each class of the franchisee entity’s issued and outstanding capital stock or membership units, as applicable; and **(ii)** are entitled, under its governing documents and under any agreements among the Owners, to cast a sufficient number of votes to require such entity to take or omit to take any action which such entity is required to take or omit to take under this Agreement; or **(b)** if you are a partnership, that the Owners **(i)** own at least 50% interest in the operating profits and operating losses of the partnership as well as at least 50% ownership interest in the partnership (and at least 50% interest in the shares of each class of capital stock of any corporate general partner); and **(ii)** are entitled under its partnership agreement or applicable law to act on behalf of the partnership without the approval or consent of any other partner or be able to cast a sufficient number of votes to require the partnership to take or omit to take any action which the partnership is required to take or omit to take under this Agreement. Any interest less than 51% of the corporation, limited liability company, or partnership is a **“Non-Controlling Interest.”**

“Copyrighted Works” means works of authorship which are owned by SFC and fixed in a tangible medium of expression including, without limitation, the content of the Manual, the design elements of the Marks, SFC’s menus, bulletins, correspondence and communications with our franchisees, training, advertising and promotional materials, and the content and design of SFC’s Website.

“Crisis Management Event” means any event that occurs at or about the Store premises or in connection with the operation of the Franchised Business that has or may cause harm or injury to customers or employees, such as food contamination, food spoilage/poisoning, food tampering/sabotage, contagious diseases, natural disasters, terrorist acts, shootings or other acts of violence, data breaches, real or threatened, or any other circumstance which may materially and adversely affect the System or the goodwill symbolized by the marks.

“Franchise Agreement” means the form of agreement prescribed by SFC and used to grant to its franchisees the right to own and operate a single SUBMARINA® Store, including all attachments, exhibits, riders, guarantees, or other related instruments, all as amended from time to time.

“Force Majeure” means acts of God (such as tornadoes, earthquakes, hurricanes, floods, fire, or other natural catastrophe); strikes, lockouts or other industrial disturbances; war, terrorist acts, riot, or other civil disturbance; epidemics; or other similar forces which you could not by the exercise of reasonable diligence have avoided; provided however, that neither an act or failure to act by a governmental authority, nor the performance, non-performance or exercise of rights under any agreement with you by any lender, landlord, or other person will be an event of Force

Majeure under this Agreement, except to the extent that such act, failure to act, performance, non-performance or exercise of rights results from an act which is otherwise an event of Force Majeure. Your financial inability to perform or your insolvency will not be an event of Force Majeure under this Agreement.

“Gross Sales” Gross Sales is the total Selling Price of all services and products and all income of every other kind and nature related to your SUBMARINA® Store, including income related to catering operations and special events and the full value of meals provided to your bona fide employees as a benefit of their employment (except you may deduct from Gross Sales the value of any employee discounts that are given during the week in which the meals are provided), whether for cash or credit and regardless of collection in the case of credit. Gross Sales does not include **(i)** receipts from any public telephone, vending machine, or video games installed in your SUBMARINA® Store, except for your share of the revenues; **(ii)** sales (or similar) taxes that you collect from your customers if you transmit them to the appropriate taxing authority; **(iii)** proceeds from isolated sales of trade fixtures that are not part of the products and services you offer and that do not have any material effect on the operation of your SUBMARINA® Store; **(iv)** tips or gratuities paid directly by Store customers to your employees or paid to you and then turned over to these employees by you in lieu of direct tips or gratuities; or **(v)** returns to shippers or manufacturers. Gross Sales also does not include proceeds from the sale of gift certificates or stored value cards (all proceeds from the sale of gift certificates and stored value cards belong to us), but it does include the redemption value of gift certificates and stored value cards at the time purchases are made. You are responsible for the accurate reporting of gift certificate and stored value card sales and the corresponding impact on Gross Sales. You have until 30 days after the end of our fiscal year to notify us of any errors you made in calculating Gross Sales as those errors relate to the reporting of gift certificate and stored value card sales. “Selling Price” is defined as the non-discounted, regular menu price.

“Incapacity” means physical, emotional, or mental injury or illness which would prevent a person from performing the obligations set forth in this Agreement or in the guaranty made part of this Agreement for at least 90 consecutive days and from which the person suffering the incapacity is not likely to recover within 90 the date of determination of the incapacity, as determined by a licensed practicing physician upon examination of the person, or if the person refuses to submit to an examination, then such person automatically will be deemed to be incapacitated as of the date of such refusal.

“Manual” means the compilation of information and knowledge that is necessary and material to the System. The term “Manual,” as used in this Agreement, includes all publications, materials, drawings, memoranda, videotapes, CDs, DVDs, MP3s, and other electronic media that SFC from time to time may loan or otherwise make available to you. The Manual may be supplemented or amended from time to time by letter, electronic mail, bulletin, videotape, CD, DVD, MP3, or other communications concerning the System to reflect changes in the image, specifications, and standards relating to developing, equipping, furnishing, and operating a SUBMARINA® Store.

“Owner” means each individual or entity holding a beneficial ownership in the franchisee. It includes all shareholders of a corporation, all members of a limited liability company, all general and limited partners of a limited partnership, and the grantor and the trustee of the trust.

“Marks” means certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including, but not limited, to the marks “SUBMARINA®,” “SUBMARINA CALIFORNIA SUBS®,” and such other trade names, service marks, and trademarks as are now designated and may hereafter be designated by SFC in writing for use in connection with the System.

“Proprietary Products” means recipes and menu items that incorporate SFC’s trade secrets and proprietary information and products and ingredients that are manufactured according to our proprietary specifications.

“Store Manager” means the person who is in charge of the day-to-day, on-site operations of the Store.

“Submarina Franchise Meeting” means the meeting, which may vary in place and length that SFC conducts and/or sponsors to provide you information regarding the System and various aspects of the business, which meeting may or may not be conducted on an annual basis.

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE AGREEMENT

ATTACHMENT B-1
GUARANTY AND PERSONAL UNDERTAKING

1. I ("Guarantor") have read the Franchise Agreement between Submarina Franchise of California, LLC and _____ ("Franchisee"), having an Effective Date of _____.
2. I own a beneficial interest in Franchisee and would be considered an "Owner" within the definition contained in the Franchise Agreement.
3. I understand that were it not for this Guaranty and Personal Undertaking ("Guaranty"), SFC would not have agreed to enter into the Franchise Agreement with Franchisee.
4. I will comply with of the provisions contained in Article 7 of the Franchise Agreement concerning the Franchisee's use of SFC's Marks and Copyrighted Works (as that term is defined in the Franchise Agreement). I understand that, except for the license granted to Franchisee, I have no individual right to use the Marks or Copyrighted Works, and I have no ownership interest in the Marks or Copyrighted Works.
5. I will comply with all of the provisions contained in Article 8 of the Franchise Agreement concerning the use of the Confidential Manual and Information. I will maintain the confidentiality of all Confidential Information disclosed to me. I agree to use the Confidential Information only for the purposes authorized under the Franchise Agreement. I further agree not to disclose any of the Confidential Information, except: (a) to Franchisee's employees on a need to know basis; (b) to Franchisee's and my legal and tax professionals to the extent necessary for me to meet my legal obligations; and (c) as otherwise may be required by law.
6. I will comply with all of the provisions contained in Section 11.3. of the Franchise Agreement.
7. I will comply with all of the provisions contained in Article 12 of the Franchise Agreement concerning the transfer of my ownership interest in the Franchise Agreement and/or in Franchisee.
8. While I am an Owner of Franchisee and, for a two-year period after I cease to be an Owner (or two years after termination or expiration (without renewal) of the Franchise Agreement, whichever occurs first), I will not:
 - (a) Divert or attempt to divert any present or prospective customer of a SUBMARINA® Store to any competitor by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System; or
 - (b) Own, maintain, advise, operate, engage in, be employed by, make loans to, invest in, provide any assistance to, or have any interest in (as owner or otherwise) or relationship or association with, any store, shop, or fast casual, quick service, or full service restaurant, or retail outlet of any type, that offers as a primary menu item or mix of menu items cold or toasted sandwiches, other than a SUBMARINA® Store operated pursuant to a then-currently effective Franchise Agreement. This restriction will apply, while I am an Owner, to any location within the United States, its territories or commonwealths, or any other country, province, state or geographic area in which SFC or its Affiliates have used, sought registration of or registered the Marks or similar marks or operate or license others to operate a business under the Marks or similar marks. This restriction will apply for two years after I cease to be an Owner (or two years after termination or expiration of the Franchise Agreement, whichever occurs first) to any location that: (i) is, or is intended to be, located at the location of the former Franchised Location; (ii) is within a one-mile radius of the former Franchised Location; or (iii) is within a one-mile radius of any other Store operating under the System and Marks, that is in existence or under development at any location within the United States, its territories, or commonwealths, or any other country, province, state, or geographic area in which SFC or its Affiliates have used, sought registration of, or registered the Marks or similar marks, or operate or license others to operate a business under the Marks or similar marks, at the time of such expiration, termination, or transfer. The time periods relating to restrictions set forth in this Guaranty will be tolled during any period of my noncompliance.
9. I agree that each of the foregoing covenants will be construed as independent of any other covenant or provision of this Guaranty. If all or any portion of a covenant in this Guaranty is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which SFC is a party, I expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Guaranty.

10. I understand and acknowledge that SFC shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Guaranty, or any portion thereof, without my consent, effective immediately upon receipt by me of written notice thereof, and I agree to comply forthwith with any covenant as so modified.

11. I agree that the provisions contained in Article 19 of the Franchise Agreement will apply to any dispute arising out of or relating to this Guaranty. If SFC brings any legal action to enforce its rights under this Guaranty, I will reimburse SFC its reasonable attorneys' fees and costs.

12. I hereby guarantee the prompt and full payment of all amounts owed by the Franchisee under the Franchise Agreement.

13. I will pay all amounts due under this Guaranty within 14 days after receiving notice from SFC that the Franchisee has failed to make the required payment. I understand and agree that SFC need not exhaust its remedies against the Franchisee before seeking recovery from me under this Guaranty.

14. I understand that my liability under this Guaranty is joint and several with each of the undersigned.

15. No modification, change, impairment, or suspension of any of SFC's rights or remedies will in any way affect any of my obligations under this Guaranty. If the Franchisee has pledged other security or if one or more other persons have personally guaranteed performance of the Franchisee's obligations, I agree that SFC's release of such security will not affect my liability under this Guaranty.

16. If I am a resident of California, or otherwise subject to the laws of the State of California, I hereby waive **(a)** all rights described in California Civil Code Section 2856(a)(1)-(2), inclusive, which includes, without limitation, any rights and defenses which are or may become available to the undersigned by reason of California Civil Code Sections 2787 to 2855, inclusive; and **(b)** California Civil Code Sections 2899 and 3433.

17. **I WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, INVOLVING SFC, WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THE FRANCHISE AGREEMENT, THE PERFORMANCE OF ANY PARTY UNDER THE FRANCHISE AGREEMENT, AND/OR THE OFFER OR GRANT OF THE FRANCHISE.**

18. I understand that SFC's rights under this Guaranty will be in addition to, and not in lieu of, any other rights or remedies available to SFC under applicable law.

19. I agree that any notices required to be delivered to me will be deemed delivered at the time delivered in person, by Express Mail, by certified mail; by private overnight delivery; or by facsimile or other electronic system (such as email). Service will be deemed conclusively made: **(a)** at the time of service, if personally served; **(b)** 24 hours (exclusive of weekends and national holidays) after deposit in the United States mail, properly addressed and postage prepaid, if served by Express Mail; **(c)** upon the earlier of actual receipt or three calendar days after deposit in the United States mail, properly addressed and postage prepaid, return receipt requested, if served by certified mail; **(d)** 24 hours after delivery by the party giving the notice, statement, or demand if by private overnight delivery; and **(e)** at the time of transmission by facsimile or other electronic transmission, if such transmission occurs prior to 5:00 p.m. Central Time on a Business Day and a copy of such notice is mailed by certified mail within 24 hours after the transmission to the address identified on the signature line below. I may change this address only by delivering to SFC written notice of the change.

Intending to be legally bound, I have executed this Guaranty and Personal Undertaking on the date set forth below:

GUARANTOR

Guarantor's Name, an Individual

Date: _____

Address: _____

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE AGREEMENT

ATTACHMENT B-2
CONFIDENTIALITY AND NONCOMPETITION AGREEMENT

In accordance with the terms of this Confidentiality and Noncompetition Agreement ("Confidentiality Agreement") and in consideration of my relation to and/or connection with _____ ("Franchisee") (or to Franchisee's affiliate if I am employed by Franchisee's affiliated entity) and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, I ("Covenantor") hereby acknowledge and agree that:

1. Franchisee has acquired the right and franchise from Submarina Franchise of California, LLC ("SFC") to establish and operate a Franchised Business ("Franchised Business") and the right to use in the operation of the Franchised Business SFC's trade names, trademarks, and service marks, including the service mark SUBMARINA® ("Marks") and the system developed by SFC and/or its affiliates for operation and management of Franchised Businesses ("System"), as they may be changed, improved, and further developed from time to time in SFC's sole discretion.
2. SFC possesses certain proprietary and confidential information relating to the operation of the Franchised Business, which includes the Manual, recipes, trade secrets, and copyrighted materials, methods, and other techniques and know-how ("Confidential Information"). Any and all manuals, trade secrets, copyrighted materials, methods, information, knowledge, know-how, and techniques which SFC specifically designates as confidential are deemed to be Confidential Information for purposes of this Confidentiality Agreement.
3. Because I am a Covenantor, SFC and Franchisee will disclose the Confidential Information to me in furnishing to me the training program and subsequent ongoing training, SFC's operations manual ("Manual"), and other general assistance during the term of this Confidentiality Agreement.
4. I will not acquire any interest in the Confidential Information, other than the right to utilize it in the operation of the Franchised Business during the term hereof, and the use or duplication of the Confidential Information for any use outside the System would constitute an unfair method of competition.
5. The Confidential Information is proprietary, involves trade secrets of SFC, and is disclosed to me solely on the condition that I agree, and I do hereby agree, that I shall hold in strict confidence all Confidential Information and all other information designated by SFC as confidential. Unless SFC otherwise agrees in writing, I will disclose and/or use the Confidential Information only in connection with my duties to Franchisee and will continue not to disclose any such information even after I cease to be in that position and will not use any such information even after I cease to be in that position unless I can demonstrate that such information has become generally known or easily accessible other than by the breach of an obligation of Franchisee under the Franchise Agreement.
6. Except as otherwise approved in writing by SFC, I shall not, while in my position with Franchisee and for a continuous uninterrupted period commencing upon the cessation or termination of my relationship and/or position with Franchisee, regardless of the cause for cessation or termination, and continuing for two years thereafter, either directly or indirectly, for myself or through, on behalf of, or in conjunction with any other person, partnership, corporation, or other limited liability company own, maintain, engage in, be employed by, advise, assist, invest in, franchise, make loans to, or have any interest in any store, shop, or fast casual, quick service, or full service restaurant, or retail outlet of any type, that offers as a primary menu item or mix of menu items cold or toasted sandwiches within a radius of one-mile of any SUBMARINA® Store, as those terms are defined in the Franchise Agreement. The restrictions in this paragraph do not apply to my ownership of less than a five percent beneficial interest in the outstanding securities of any publicly-held corporation. The time periods relating to the restrictions set forth in this Confidentiality Agreement will be tolled during any period of my noncompliance.
7. I agree that each of the foregoing covenants will be construed as independent of any other covenant or provision of this Confidentiality Agreement. If all or any portion of a covenant in this Confidentiality Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which SFC is a party, I expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Confidentiality Agreement.
8. I understand and acknowledge that SFC has the right, in its sole discretion, to reduce the scope of any covenant set forth in this Confidentiality Agreement, or any portion thereof, without my consent, effective

immediately upon receipt by me of written notice thereof, and I agree to comply forthwith with any covenant as so modified. I also understand that neither I nor Franchisee may make any changes to this Confidentiality Agreement without the written consent of SFC.

9. SFC is a third-party beneficiary of this Confidentiality Agreement and may enforce it, solely and/or jointly with Franchisee. I am aware that my violation of this Confidentiality Agreement will cause SFC and Franchisee irreparable harm; therefore, I acknowledge and agree that Franchisee and/or SFC may apply for the issuance of an injunction preventing me from violating this Confidentiality Agreement, and I agree to pay Franchisee and SFC all the costs it/they incur(s), including, without limitation, legal fees and expenses, if this Confidentiality Agreement is enforced against me. Due to the importance of this Confidentiality Agreement to Franchisee and SFC, any claim I have against Franchisee or SFC is a separate matter and does not entitle me to violate or justify any violation of this Confidentiality Agreement.

10. This Confidentiality Agreement will be construed under the laws of the State of Texas.

11. I WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, INVOLVING SFC, WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THE FRANCHISE AGREEMENT, THE PERFORMANCE OF ANY PARTY UNDER THE FRANCHISE AGREEMENT, AND/OR THE OFFER OR GRANT OF THE FRANCHISE.

12. I acknowledge that I am to receive valuable information emanating from SFC's principal business office, wherever it may be located. Therefore, with respect to all claims, controversies, and disputes, I irrevocably consent to personal jurisdiction and submit myself to the jurisdiction of the federal and state courts that service the county where SFC's principal business office is located. Notwithstanding the foregoing, I acknowledge and agree that SFC or Franchisee may bring and maintain an action against me in any court of competent jurisdiction for injunctive or other extraordinary relief against threatened conduct that will cause it loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary and permanent injunctions.

THE PARTIES HERETO, INTENDING TO BE LEGALLY BOUND, HAVE EXECUTED THIS CONFIDENTIALITY AGREEMENT AS OF THE DATES NOTED BELOW.

COVENANTOR

Signature: _____

Signed as an Individual

Print Name: _____

Address: _____

Date: _____

ACKNOWLEDGED BY FRANCHISEE

By: _____

Name, Title: _____

Date: _____

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE AGREEMENT**

ATTACHMENT C

ACH AUTHORIZATION AGREEMENT FOR DIRECT PAYMENTS (ACH DEBITS)

Please complete and sign this form.

FRANCHISEE INFORMATION

Franchisee Name or Legal Entity

SUBMARINA® Store Number & Location

Name and Email of Person to Receive ACH Debit Advice

Authorization Agreement

I (we) hereby authorize Submarina Franchise of California, LLC (“**Company**”) to make ACH withdrawals from my (our) account at the financial institution named below. I also authorize the Company to initiate direct deposits into this account in the event that a debit entry is made in error. I (we) acknowledge that the origination of ACH transactions to or from my (our) account must comply with the provisions of U.S. law.

I agree to indemnify the Company for any loss arising in the event that any withdrawals from my (our) account are dishonored, whether with or without cause and whether intentionally or inadvertently.

This agreement will remain in effect until the Company has received advanced written notice of cancellation from me (us) in such time and in such manner as to afford the Company a reasonable opportunity to act on it, and in no event will such notice period be less than 30 days.

PAYOR/FRANCHISEE ACCOUNT INFORMATION

Name of Financial Institution:

ABA Routing Number:

Checking

Savings

Account Number:

PAYOR/FRANCHISEE SIGNATURE

Authorized Signature (Primary):

Date:

Authorized Signature (Joint):

Date:

Account holder(s), please sign here: **(Joint accounts require the signature of all persons having authority over the account)**

Please scan and email this Authorization and a copy of a voided check to: support@submarina.com

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE AGREEMENT**

**ATTACHMENT D
LEASE RIDER**

This Lease Rider (“**Rider**”) is entered into by the undersigned on the dates set forth below.

(a) Landlord acknowledges that “**Tenant**” is a franchisee of Submarina Franchise of California, LLC (“**SFC**”), a Texas limited liability company, and that the SUBMARINA® Store located at the Premises (“**Store**”) is operated under the SUBMARINA® franchise system, pursuant to a franchise agreement (“**Franchise Agreement**”) between Tenant and SFC. Landlord consents to Tenant’s use at the Premises of such marks and signs, decor items, color schemes, and related components of the SUBMARINA® system as SFC may prescribe for the Store. During the Term of the Franchise Agreement, the Premises may be used only for the operation of the Store.

(b) Landlord agrees to furnish to SFC copies of any and all letters and notices sent to Tenant pertaining to the Lease and the Premises at the same time that such letters and notices are sent to Tenant. Without limiting the foregoing, in the event of any default by Tenant, Landlord shall give SFC written notice of such default. If Tenant has failed to cure such default at the expiration of the applicable cure period, Landlord shall give SFC further written notice of such failure (“**SFC Notice**”). Following SFC’s receipt of the SFC Notice, SFC shall have the right (but not the obligation) to cure Tenant’s default before Landlord shall exercise any of Landlord’s remedies arising as a consequence of Tenant’s default. Any such cure will be effected within 15 days following SFC’s receipt of the SFC Notice. Such cure by SFC will not be deemed to be an election to assume the terms, covenants, obligations, or conditions of the Lease.

(c) If SFC cures Tenant’s default, or if SFC notifies Landlord that the Franchise Agreement has been terminated (which termination will constitute a non-curable default pursuant to the Lease upon Landlord’s receipt of SFC’s notice thereof), Landlord agrees, upon SFC’s written request, to assign to SFC any and all rights that Landlord may have under the Lease to remove and evict Tenant from the Premises and shall cooperate with SFC in order to pursue such action to a conclusion.

(d) If SFC cures Tenant’s default, or notifies Landlord of the termination of the Franchise Agreement, SFC shall have the right and option, upon written notice to Landlord, to do the following:

1. Undertake to perform the terms, covenants, obligations, and conditions of the Lease on behalf of the Tenant (notwithstanding any removal or eviction of Tenant) for a period not to exceed six months from the first date of any cure by SFC; or

2. At any time within or at the conclusion of such six-month period, assume the terms, covenants, obligations, and conditions of the Lease for the remainder of the term, together with any applicable renewal options. In such event, Landlord and SFC shall enter into an agreement to document such assumption. SFC is not a party to the Lease and will have no liability under the Lease unless and until said Lease is assigned to, and assumed by, SFC as herein provided.

(e) If, during the six-month period set forth in section (d)(1) above, or at any time after the assignment contemplated in section (d)(2), SFC shall notify Landlord that the franchise for the Store is being granted to another SUBMARINA® franchisee, Landlord shall permit the assignment of the Lease to said franchisee without the payment of any fee or other cost requirement, provided that, said franchisee meets Landlord’s reasonable financial qualifications. Landlord shall not unreasonably withhold consent to such assignment. Thereafter, SFC will be released from any and all further liabilities under the Lease. The parties agree to execute any commercially reasonable documents in furtherance of this section.

(f) Tenant will not assign the Lease or renew or extend the term thereof without the prior written consent of SFC, nor shall Landlord and Tenant amend or otherwise modify the Lease in any manner that could materially affect any of the foregoing requirements without the prior written consent of SFC.

(g) SFC shall have the right to enter the Premises to make any modification or alteration necessary to protect the SUBMARINA® System and Marks (including, without limitation, remove all signs, advertising materials, displays, fixtures, proprietary equipment and inventory, and any other items which display the Marks or are indicative of SUBMARINA® trade dress) or to cure any default under the Franchise Agreement or under the Lease, without being

guilty of trespass or any other crime or tort. Landlord shall not be responsible for any expenses or damages arising from any such action by SFC. Tenant hereby releases, acquits, and discharges SFC and Landlord, their respective subsidiaries, affiliates, successors, and assigns and the officers, directors, shareholders, partners, employees, agents, and representatives of each of them, from any and all claims, demands, accounts, actions, and causes of action, known or unknown, vested or contingent, which any of them may have, ever had, now has, or may hereafter have by reason of any event, transaction, or circumstance arising out of or relating to the exercise of SFC's rights pursuant to the Addendum.

(h) Landlord shall subordinate any lien in favor of Landlord created by the Lease to SFC. Landlord's rights to collect on any liens that Landlord files or attaches to Tenant's property rights will be subordinate and inferior to SFC's lien rights against any and all of the personal property, furnishings, equipment, signs, fixtures, and inventory owned by Tenant and on the premises operated by Tenant under the Lease.

(i) Landlord and Tenant acknowledge that SFC is a third-party beneficiary of this Rider and may enforce it, solely and/or jointly with Tenant.

(j) All notices sent pursuant to this Rider will be sent in the manner set forth in the Lease, and delivery of such notices will be effective as of the times provided for in the Lease. For purposes of a SFC Notice or any other notice to SFC that may arise under the Lease, SFC's mailing address will be La Mesa, California 91942, Attention: Brian Kennedy, which address may be changed by written notice to Landlord in the manner provided in the Lease.

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE AGREEMENT**

**ATTACHMENT E
LIABILITY WAIVER**

I am an owner of _____ (“**Franchisee Company**”). Franchisee Company has signed a franchise agreement with Submarina Franchise of California, LLC. In consideration for the training to be provided to my employees and me by Submarina Franchise of California, LLC and/or its affiliates (collectively, “**SFC**”), I agree, both for myself and on behalf of Franchisee Company, to hold SFC harmless from, and I hereby waive any and all liability of SFC and its officers, directors, agents, employees, insurers, and franchisees for, any injury, claim, damage, or incident which occurs in the course of training at any **SUBMARINA®** Store or other designated training facility(s) owned or controlled by SFC, specifically including personal injury, property damage, and employment-related claims, and even if caused in whole or in part by the negligence of SFC or any SFC employee.

I understand that:

- SFC has invited my employees and me onto its premises for training solely by virtue of Franchisee Company’s franchise relationship with SFC;
- Training may involve a variety of risks, including the risk of physical and/or emotional injury and property damage; and
- SFC assumes no liability to me, Franchisee Company, or employees of Franchisee Company for any harm or claims of harm incurred or allegedly while in training and/or on SFC’s premises.

I acknowledge that my employees must look solely to Franchisee Company and its benefits programs and workers compensation insurance to cover the costs of any treatment for injuries or other losses or damages that my employees may sustain in training. Neither I nor Franchisee Company will attempt to hold SFC liable or financially responsible for any such losses or damages. I acknowledge that the indemnification clause of Franchisee Company’s franchise agreement with SFC will apply to any claim against SFC by any of Franchisee Company’s (or its affiliates’) employees.

I certify that Franchisee Company has and will maintain minimum insurance coverage as required by the franchise agreement, including worker’s compensation and employees’ liability per statutory requirements. At SFC’s request, I agree to provide a certificate of insurance completed by Franchisee Company’s insurance carrier, certifying that the required minimum insurance coverage is in effect.

I give my consent for SFC to arrange for medical treatment for any illness or injury that I or my employees might suffer while participating in the training program.

FRANCHISEE COMPANY:

By: _____

Date: _____

_____, an Individual

Date: _____

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE AGREEMENT**

**ATTACHMENT F
FRANCHISEE QUESTIONNAIRE**

California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin franchisees should not complete this Franchisee Questionnaire. If a franchisee in one of these states does so, we will disregard and not rely on the Franchisee Questionnaire.

As you know, Submarina Franchise of California, LLC (“we” or “us”) and you are preparing to enter into a Franchise Agreement for the operation of a SUBMARINA® Store (“Franchise”). The purposes of this Questionnaire are to determine whether any statements or promises were made to you that we have not authorized or that may be untrue, inaccurate, or misleading, to be certain that you have been properly represented in this transaction, and to be certain that you understand the limitations on claims you may make by reason of the purchase and operation of your franchise. You cannot sign or date this Questionnaire the same day as the Receipt for the Franchise Disclosure Document, but you must sign and date it the same day you sign the Franchise Agreement and pay your franchise fee. Please review each of the following questions carefully and provide honest responses to each question.

Yes No

1. Have you received and personally reviewed the Franchise Disclosure Document and Franchise Agreement we provided?

Yes No

2. Did you have possession of the Franchise Disclosure Document at least 14 calendar days before you paid us any money related to the purchase of this Franchise?

Yes No

3. Did you have possession of the completed Franchise Agreement and related agreements, with all blanks filled in, at least seven calendar days prior to the date on which the such Agreements were executed (which execution occurred on the date set forth on the signature page hereto).

Yes No

4. Do you understand that the initial franchise fee is nonrefundable?

Yes No

5. Have you had the opportunity to conduct an independent investigation of the franchised business offered and to seek independent counsel from a lawyer, accountant, or other professional advisor?

Yes No

6. Has any employee or other person speaking on our behalf made any statement or promise regarding the actual, average, or projected profits or earnings, the likelihood of success, the amount of money you may earn, or the total amount of revenue a SUBMARINA® Store will generate, that is not contained in the Franchise Disclosure Document or that is contrary to, or different from, the information contained in the Franchise Disclosure Document? If Yes, please provide a full explanation on the back of this questionnaire

Yes No

7. Do you understand the success or failure of your Franchise will depend in large part upon your skills, abilities, and efforts and those of the person you employ, as well as many factors beyond your control such as weather, competition, interest rates, the economy, inflation, labor and supply costs, lease terms, and the marketplace?

Yes No

8. Do you understand that you will receive no territorial protection and that we and our affiliates may engage in businesses that compete with your SUBMARINA® Store(s)?

Yes No

9. Do you understand we are not obligated to provide assistance to you in finding and securing a location for your SUBMARINA® Store?

Yes No

10. Do you understand we do not have to sell you a Franchise or additional Franchises or consent to your purchase of existing Franchises?

Yes No

11. Do you understand that the Franchise Agreement contains the entire agreement between us and you concerning the Franchise, meaning any prior oral or written statements not set out in the Franchise Agreement will not be binding?

You understand that we are acting in reliance on the truthfulness and completeness of your responses to the questions above in entering into the Franchise Agreement with you. YOU ACKNOWLEDGE AND AGREE THAT IN THE EVENT THAT ANY DISPUTE ARISES, THIS QUESTIONNAIRE WILL BE ADMISSIBLE AS EVIDENCE IN ANY LEGAL ACTION, AND YOU HEREBY WAIVE, TO THE FULLEST EXTENT PERMISSIBLE UNDER THE LAW, ANY OBJECTION TO SUCH ADMISSION OF THIS QUESTIONNAIRE.

NOTE: IF THE FRANCHISEE IS A CORPORATION, PARTNERSHIP, LIMITED LIABILITY COMPANY, OR OTHER ENTITY, EACH OF ITS OWNERS MUST EXECUTE THIS ACKNOWLEDGEMENT.

MARYLAND ONLY: 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.

Dated: _____

Printed Name, an Individual

Printed Name, Officer

of _____

(a _____ Corporation)

(a _____ Limited Liability Company)

(a _____ Partnership)

EXHIBIT C

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE DISCLOSURE DOCUMENT**

GENERAL RELEASE

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
GENERAL RELEASE

1. **Release of Franchisor and Related Parties.** Franchisee and Owner, for themselves and on behalf of all other persons or entities acting on their behalf or claiming under them, hereby release, acquit, and discharge Franchisor, its subsidiaries, affiliates, successors, and assigns and their respective officers, managers, directors, shareholders, partners, employees, agents, and representatives, whether in their individual or corporate capacities (“**Franchisor Released Parties**”), past and present, from any and all claims, damages, demands, accounts, actions, and causes of action, known or unknown, vested or contingent, which any of them may have, ever had, now has, or may hereafter have by reason of any event, transaction, or circumstance, including but not limited to those arising out of or relating to the performance or non-performance of the Franchise Agreement; or otherwise arising out of the Franchise Agreement or the relationship created thereby, or any other agreement between Franchisor on the one hand and Franchisee and/or any entity in which any Owner has any ownership on other hand; and/or the offer or sale of the SUBMARINA® franchise opportunity. Excepted from this release are any applicable contractual obligations, which remain in full force and effect.

[For California franchisees: Franchisee and Owner expressly waive and relinquish all rights and benefits which either may now have or in the future have under and by virtue of California Civil Code Section 1542. Franchisee and Owner do so understanding the significance and consequence of such specific waiver. Section 1542 provides that “[a] general release does not extend to claims which the creditor does not know or suspect exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.” For the purpose of implementing a general release and discharge as described in Section 1. above, Franchisee and Owner expressly acknowledge that this Agreement is intended to include in its effect, without limitation, all claims described in Section 1. above which Franchisee and Owner do not know or suspect to exist in their favor at the time of execution hereof, and that this Agreement contemplates the extinguishment of any such claims.]

2. **Covenant Not to Sue.** Franchisee and Owner covenant and agree for themselves and for their assigns, heirs, representatives, agents, family members, and all other persons acting on their behalf or claiming under them (collectively, “**Covenantors**”) not to participate in, bring, or allow to be brought on behalf of any Covenantor, any action, cause of action, suit, or other proceeding of any kind, which has accrued or which may ever accrue, whether based in the Constitution, common law, or statute, contract, tort, or in equity, for actual or punitive damages or other relief, against any Franchisor Released Party arising out of, resulting from, or in any manner related to the matters released in Section 1.

3. **Unknown Claims.** Franchisee and Owner have carefully read and fully understand the provisions of this general release, including the release of claims set forth herein, and represent that such release is given knowingly and voluntarily; and further acknowledge there is a risk that, subsequent to the execution of this general release, each or all of them may discover, incur, or suffer claims or damages which are unknown or unanticipated at the time this general release is executed, which, if known, may have materially affected their decision to execute this general release. Each of them agrees that each of them is assuming the risk of such unknown or unanticipated claims and agrees that the releases set forth above apply thereto.

4. **Acknowledgments Regarding Releases.** By affixing their signatures to this general release, Franchisee and Owner acknowledge that they have carefully read and fully understand the provisions of this general release, including, specifically, the release of claims set forth in Section 1., and that their release of such claims is knowing and voluntary. Franchisee and Owner acknowledge that they have had a reasonable opportunity to consult with an attorney prior to executing this general release and that they have executed this general release voluntarily. Each such party represents that it does not rely, and has not relied

upon, any representation or statement made by any of the Franchisor Released Parties, or any of their representatives with regard to the subject matter, basis, or effect of this general release.

5. **Governing Law.** This general release will be governed in accordance with the laws of the state of Texas.

IN WITNESS WHEREOF, Franchisee and Owner have executed this general release on the date set forth below.

FRANCHISEE:

By: _____

Date: _____

OWNER:

Date: _____

Date: _____

[This General Release will be modified as necessary for consistency with any state law regulating franchising.]

EXHIBIT D

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE DISCLOSURE DOCUMENT**

LIST OF FRANCHISEES

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE DISCLOSURE DOCUMENT

FRANCHISEES AS OF DECEMBER 31, 2023

Franchisee	Address	City	ST	Zip	Store Phone No.
California					
Guzman Communications Inc.	1511 East Valley Parkway	Escondido	CA	92027	760-489-1106
Quick Subs LLC	830 West Avenue "L" Unit 131	Lancaster	CA	93534	661-949-8683
Eric Dannenberg	26045 Newport Road, Suite C	Menifee	CA	92584	951-246-8343
Hale Inc.	40444 Murrieta Hot Springs Road, Suite 104	Murrieta	CA	92562	951-696-1645
Del Real Enterprises Inc.	33040 Antelope Road	Murrieta	CA	92563	951-244-7822
Michael Nunez	2183 Vista Way, Suite B-7	Oceanside	CA	92054	760-433-8178
Martha Rodriguez	28211 Gold Canyon Dr.	Santa Clarita	CA	91390	661-713-3931
Lloyd Weamer	320 Sycamore Ave, Suite 40	Vista	CA	92083	760-631-5600
Jamie and Nate Sigafoos	29261 Central Ave	Lake Elsinore	CA	92532	951-471-0300
Shawn Saifullah	32065 Highway 79 South	Temecula	CA	92592	951-303-3110
Guam					
IT&E Overseas, Inc	1069 Army Drive	Barrigada	GU	96193	671-637-7827
IT&E Overseas, Inc	138 W Seaton Blvd	Haganta	GU	96190	671-478-7827
IT&E Overseas, Inc	267 Marine Corps Drive	Tamuning	GU	96913	671-635-7827
IT&E Overseas Inc	186 West Marine Corps Drive	Dededo	GU	96929	671-633-7827

**FRANCHISEES WITH SIGNED AGREEMENTS BUT STORES NOT OPEN
AS OF DECEMBER 31, 2023**

None.

LIST OF FORMER FRANCHISEES

Franchisees whose franchise agreement was terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under their franchise agreement during the last fiscal year, or who have not communicated with us within 10 weeks of this disclosure document.

Franchisee (1)	City	ST	Phone No.	Notes
Manoj Gupta/Quick Serv Inc.	Murrieta	CA	951-240-8867	Transfer
Victor Camarena	Oceanside	CA	619-402-4260	Transfer
Paul Simmons	Charlotte	NC	951-236-7337	Ceased Operations

(1) Quick Serv Inc., transferred two stores in Escondido and Murrieta, California, to new owners in 2023.

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

EXHIBIT E
SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE DISCLOSURE DOCUMENT

OPERATIONS MANUAL TABLE OF CONTENTS



SUBMARINA FRANCHISE OF CALIFORNIA, LLC
OPERATIONS MANUAL TABLE OF CONTENTS

Brand

Franchise Philosophy & Organization	4 Pages
System Standards	21 Pages
Customer Relations	10 Pages

Marketing

Resources and Programs	19 Pages
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Training

Training & Personnel	41 pages
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Operations

Customer Relations	10 Pages
Operational Tools	85 Pages
POS System	25 Pages

EXHIBIT F

SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE DISCLOSURE DOCUMENT
LIST OF STATE ADMINISTRATORS

LIST OF STATE ADMINISTRATORS

California

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

Hawaii

Business Registration Division
Department of Commerce and Consumer Affairs
335 Merchant Street, Room 203
Honolulu, Hawaii 96813
808-586-2722

Illinois

Office of Attorney General
500 S. Second Street
Springfield, Illinois 62706
217-782-4465

Indiana

Franchise Section
Securities Division
302 W. Washington St., Room E-111
Indianapolis, Indiana 46204
317-232-6681

Maryland

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

Michigan

Michigan Attorney General's Office
Consumer Protection Division
Attention: Franchise Section
G. Mennen Williams Bldg., 1st Floor
525 W. Ottawa St.
Lansing, Michigan 48933
517-373-7117

Minnesota

Minnesota Department of Commerce
85 7th Place East, Suite 280
Saint Paul, Minnesota 55101
651-639-1638

New York

NYS Department of Law
Investor Protection Bureau
28 Liberty Street, 21st Street
New York, New York 10005
212-416-8211

North Dakota

Franchise Examiner
North Dakota Securities Department
600 East Boulevard Avenue
State Capitol – 14th Floor, Dept. 414
Bismarck, North Dakota 58505-0510
701-328-2910

Rhode Island

Securities Division
Department of Business Regulation
1511 Pontiac Avenue, Building 69-1
Cranston, Rhode Island 02920
401-277-3048

South Dakota

Division of Insurance
Securities Regulation
124 S. Euclid, Suite 104
Pierre, South Dakota 57501
605-773-3563

Virginia

State Corporation Commission
Division of Securities and Retail Franchising
1300 Main Street, 9th Floor
Richmond, Virginia 23219
804-371-9051

Washington

Administrator
Department of Financial Institutions
Securities Division
150 Israel Road S.W.
Tumwater, Washington 98501
360-902-8700

Wisconsin

Franchise Administrator
Division of Securities
Department of Financial Institutions
345 West Washington Avenue
Madison, Wisconsin 53703
608-266-1365

EXHIBIT G

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE DISCLOSURE DOCUMENT**

AGENTS FOR SERVICE OF PROCESS

AGENTS FOR SERVICE OF PROCESS

California

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

Hawaii

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

Illinois

Illinois Attorney General
500 South Second Street
Springfield, Illinois 62706

Indiana

Indiana Secretary of State
201 State House
Indianapolis, Indiana 46204

Maryland

Maryland Securities Commissioner
200 St. Paul Place
Baltimore, Maryland 21202-2020

Michigan

Michigan Department of Commerce
Corporations and securities Bureau
Attention: Franchise Section
G. Mennen Williams Building, 6th Floor
525 W. Ottawa Street
Lansing, Michigan 48933

Minnesota

Minnesota Department of Commerce
85 7th Place East, Suite 280
Saint Paul, Minnesota 55101

New York

Secretary of State of the State of New York
99 Washington Avenue
Albany, New York 12231

North Dakota

The Securities Commissioner
North Dakota Securities Department
600 East Boulevard Avenue
State Capitol – 14th Floor, Dept. 414
Bismarck, North Dakota 58505-0510

Rhodes Island

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

South Dakota

Division of Insurance
Securities Regulation
124 S. Euclid, Suite 104
Pierre, South Dakota 57501

Virginia

Clerk of the State Corporation Commission
1300 East Main Street, 1st Floor
Richmond, Virginia 23219
804-371-9733

Washington

Director of Department of Financial Institutions
Securities Division - 3rd Floor
150 Israel Road, S.W.
Tumwater, Washington 98501

Wisconsin

Commissioner of Securities
Wisconsin Securities Commission
201 West Washington Avenue, Suite 300
Madison, Wisconsin 53703

EXHIBIT H

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE DISCLOSURE DOCUMENT**

STATE EFFECTIVE DATES

State Effective Dates

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

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

State	Effective Date
California	

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

EXHIBIT I

**SUBMARINA FRANCHISE OF CALIFORNIA, LLC
FRANCHISE DISCLOSURE DOCUMENT**

RECEIPTS

RECEIPT

This Franchise Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Franchise Disclosure Document and all agreements carefully.

If Submarina Franchise of California, LLC offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale, or sooner if required by applicable state law. Applicable state laws in **(a)** Connecticut and Michigan require us to provide you the disclosure document at least 10 business 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; **(b)** New York requires us to provide you the disclosure document at the earlier of the first personal meeting or 10 business 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; and **(c)** Iowa and Maine require us to provide you the disclosure document at the earlier of the first personal meeting or 14 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 Submarina Franchise of California, LLC does not deliver this Franchise Disclosure Document on time or if it contains a false or misleading statement or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580, and the appropriate state administrator listed in Exhibit F. Submarina Franchise of California, LLC's agents for service of process are listed in Exhibit G.

Issuance Date: March 25, 2024

The name, principal business address, and telephone number of the franchise seller offering the franchise is:

Name	Principal Business Address	Telephone Number
Matthew Kennedy	5454 Grossmont Center Drive, Ste A, La Mesa, CA 91942	760-717-2397
Brian Kennedy	5454 Grossmont Center Drive, Ste A, La Mesa, CA 91942	760-717-2397

I received a Franchise Disclosure Document dated March 25, 2024. This Franchise Disclosure Document included the following Exhibits and Attachments:

State-Specific Addenda

Exhibit A	Financial Statements
Exhibit B	Franchise Agreement (with state-specific amendments and all attachments)
Exhibit C	General Release (sample form)
Exhibit D	List of Franchisees
Exhibit E	Manual Table of Contents
Exhibit F	List of State Administrators
Exhibit G	Agents for Service of Process
Exhibit H	State Effective Dates
Exhibit I	Receipts

Date: _____

Signature _____

Printed Name, Individually _____

Printed Name, Officer, Title
of _____
(a _____ Corporation)
(a _____ Limited Liability Company)
(a _____ Partnership)

(Keep this page for your records.)

RECEIPT

This Franchise Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Franchise Disclosure Document and all agreements carefully.

If Submarina Franchise of California, LLC offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale, or sooner if required by applicable state law. Applicable state laws in **(a)** Connecticut and Michigan require us to provide you the disclosure document at least 10 business 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; **(b)** New York requires us to provide you the disclosure document at the earlier of the first personal meeting or 10 business 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; and **(c)** Iowa and Maine require us to provide you the disclosure document at the earlier of the first personal meeting or 14 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 Submarina Franchise of California, LLC does not deliver this Franchise Disclosure Document on time or if it contains a false or misleading statement or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580, and the appropriate state administrator listed in Exhibit F. Submarina Franchise of California, LLC's agents for service of process are listed in Exhibit G.

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Exhibit H	State Effective Dates
Exhibit I	Receipts

Date: _____

Signature _____

Printed Name, Individually _____

Printed Name, Officer, Title
of _____
(a _____ Corporation)
(a _____ Limited Liability Company)
(a _____ Partnership)

(Return this page to Submarina Franchise of California, LLC)