FRANCHISE DISCLOSURE DOCUMENT

California Tortilla Group, Inc.
A Maryland Corporation
7825 Tuckerman Lane, Suite 214
Potomac, Maryland 20854
(301) 545-0035
www.californiatortilla.com

This disclosure document provides information regarding the operation of a quick service, fast casual restaurant, which specializes in the sale of burritos, tacos, quesadillas, salads, and other California-Mexican style foods, and other additional products that we may periodically designate (the "**California Tortilla Restaurant**" or "**Restaurant**").

The total investment necessary to begin operation of a franchised California Tortilla Restaurant ranges from \$441,700 to \$770,500. This includes \$40,000 that must be paid to the franchisor or affiliate. If you sign an Area Development Agreement to develop multiple Restaurants in a specified area, you must also pay the franchisor an area development fee that will depend on the number of Restaurants that you develop. We do not require a commitment of a minimum number of Restaurants to enter into an Area Development Agreement.

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 Robert Phillips, President of California Tortilla Group, Inc., 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854, 301-545-0035.

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

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

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

The issuance date of this Franchise Disclosure Document is August 16, 2022.

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 Exhibits E and F.
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 J 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 California Tortilla business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be a California Tortilla franchisee?	Item 20 or Exhibits E and F 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 D.

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

Special Risks to Consider About *This* Franchise

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

1. **Out-of-State Dispute Resolution.** The franchise agreement and area development agreement require you to resolve disputes with the franchisor by mediation and/or litigation only in Maryland. Out-of-state mediation or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate or litigate with the franchisor in Maryland than in your own state.

2. **Spousal Liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the franchise agreement and/or area development agreement even though your spouse has no ownership interest in the franchise. This guarantee will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.

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

DISCLOSURES REQUIRED BY MICHIGAN LAW

To the extent the Michigan Franchise Investment Law, Mich. Comp. Laws §§445.1501 – 445.1546 applies, the terms of this Addendum apply.

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 on the right of a franchisee to join an association of franchisees.

(b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.

(c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.

(d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years, and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.

(e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.

(f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

(g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

(i) The failure of the proposed transferee to meet the franchisor's then-current reasonable qualifications or standards.

(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

(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 the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

(h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).

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

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE ATTORNEY GENERAL.

If the franchisee has any questions regarding this notice, those questions should be directed to the Michigan Department of Attorney General, Consumer Protection Division, Attn.: Franchise, 670 Law Building, Lansing, Michigan 48913, telephone: (517) 373-7117.

CALIFORNIA TORTILLA
FRANCHISE DISCLOSURE DOCUMENT

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STATE EFFECTIVE DATES

ITEM 1
THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES

The Franchisor

The California Tortilla Group, Inc. (“**us**,” “**our**” or “**we**”) is the franchisor.

We are a Maryland corporation, and we were incorporated on January 29, 2003. We began operations on March 17, 2003. We maintain our principal place of business at 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854 (301/545-0035). We do not maintain sales offices at any location other than our principal place of business. We conduct business under the name and mark “California Tortilla,” and we do not conduct business under any other name. Our agents for service of process are listed in Exhibit D.

We franchise the right to operate a California Tortilla restaurant, which is a quick service, fast casual restaurant which specializes in the sale of burritos, tacos, quesadillas, salads, and other California-Mexican style foods, and is described below in greater detail. We began to offer these franchises in the United States July 2003. As of December 31, 2021, there are 38 California Tortilla franchised restaurants operating in the United States. We do not offer and have not in the past offered any franchises other than as described in this disclosure document. We do not engage and have not in the past engaged in any business activity other than these franchising activities, and the operation of restaurants using the “California Tortilla” name and mark.

Our Predecessors and Affiliates

We do not have any parents.

On March 17, 2003, we acquired the Proprietary Marks (described below) and a system related to the operation of California Tortilla restaurants under the Proprietary Marks from Yeeha! LLC, a Maryland limited liability company (“**Yeeha!**”). Yeeha! is our predecessor. Yeeha!’s current principal business address is 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854. Yeeha!’s affiliate, CT Bethesda, LLC f/k/a “FTCAT, LLC” (“**CT Bethesda**”), operated one California Tortilla restaurant in Bethesda, Maryland, from August 1995 until February 2019, when it was sold to CalTort. Yeeha! has advised us that it has not offered franchises, nor does it currently offer franchises, in any line of business.

Our affiliate, Caltort Development Corporation (“**CalTort**”), has owned and operated California Tortilla Restaurants in the greater Washington D.C. metropolitan area since 2003. CalTort currently operates three California Tortilla Restaurants in Bethesda, Olney, and Quince Orchard, Maryland. CalTort also operated a California Tortilla Restaurant in Frederick, Maryland, but sold it to a franchisee in February 2019. We expect that CalTort will own and operate one or more additional California Tortilla Restaurants in the future. CalTort’s principal business address is 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854. Another affiliate CT-Potomac, LLC (“**CT-Potomac**”) has also operated one California Tortilla Restaurant in Potomac, Maryland since 2002. CT-Potomac’s principal business address is 7727 Tuckerman Lane, Potomac, Maryland 20854. Neither CalTort nor CT-Potomac has ever offered franchises in any line of business.

Our affiliate Southern Sauces, LLC (“**Southern Sauces**”) is a supplier of a limited number of hot sauces to affiliate-owned and franchisee-owned California Tortilla Restaurants and other businesses and retail stores. Southern Sauces maintains its principal business address at 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854. Southern Sauces has not engaged in any other business activities and has not offered franchises in any line of business.

The Franchise Rights Offered

Franchise Agreement

We will offer to enter into franchise agreements (**"Franchise Agreements"**) with qualified entities and persons (**"you"**) that wish to establish and operate a California Tortilla Restaurant. (In this disclosure document, "you" means the person or legal entity with whom we enter into an agreement. The term "you" also refers to the direct and indirect owners of a corporation, partnership, limited liability company, or limited liability partnership that signs a Franchise Agreement as the "franchisee".) The form of Franchise Agreement that we intend to enter into with to you should you and we mutually agree to enter into a franchise relationship is attached to this disclosure document as Exhibit A.

Under a Franchise Agreement, we will grant you the right to operate a California Tortilla restaurant under the System and using the Proprietary Marks, as the System and Proprietary Marks may be changed periodically (the "**California Tortilla Restaurant**" or "**Restaurant**"), at an agreed-upon specified location (the "**Designated Location**"). If, at the time you enter into the Franchise Agreement, you do not have an Designated Location, you must lease, sublease, or acquire a site for the location of the Restaurant, subject to our approval, under the site selection addendum ("**Site Selection Addendum**") which is attached to the Franchise Agreement as Exhibit B. The procedures for finding, selecting and receiving authorization for a site under the Site Selection Addendum are described in Item 11 of this disclosure document. The Franchise Agreement will establish a geographic area within which your Restaurant will be located (the "**Territory**"). Item 12 of this disclosure document, and the Franchise Agreement, will describe the rights that you and we will have regarding the Territory.

Area Development Agreement

We also may offer an area development agreement (the "**Area Development Agreement**") to qualified entities and persons ("**you**" or the "**Developer**"). The Area Development Agreement grants the right to establish and operate a specified number of California Tortilla Restaurants in a specified area (the "**Development Area**") at specific locations to be designated in separate Franchise Agreements. The form of Area Development Agreement that we intend to offer is attached to this disclosure document as Exhibit B.

If you sign an Area Development Agreement, you must open each California Tortilla Restaurant according to the schedule for developing California Tortilla Restaurants described in Exhibit A to the Area Development Agreement (the "**Development Schedule**"). The Developer will exercise each development right by executing a Franchise Agreement for the establishment and operation of a California Tortilla Restaurant.

The number of California Tortilla Restaurants to be established under the Development Schedule will be mutually determined by you and us, based on the size of the Development Area, demographics and economic factor in the Development Area, expended demand for Restaurants, your desire and ability to develop and operate the Restaurants, and other factors. We do not require a commitment of a minimum number of Restaurants to enter into an Area Development Agreement. During the term of the Area Development Agreement you must operate and maintain at least the number of California Tortilla Restaurants which are required to be established according to the terms of the Development Schedule.

The Franchise Agreement for the first Restaurant developed under an Area Development Agreement will be the current form of California Tortilla Franchise Agreement attached to the Area Development Agreement as Exhibit D. The Franchise Agreement for each additional Restaurant developed under an Area Development Agreement will be the then-current form of Franchise Agreement being offered generally by us at the time that each such Franchise Agreement is executed (which may be different from the form of Franchise Agreement attached to this Disclosure Document). However, for each such subsequent Franchise Agreement, no initial franchise fee will be due.

California Tortilla Restaurants

We own a format and system (the "**System**") for the establishment and operation of quick service, fast casual restaurant businesses that bear our interior and exterior trade dress, operate under the "California Tortilla" name and marks, and specialize in the sale of burritos, tacos, quesadillas, salads, and other California-Mexican style foods and additional or alternate products as we may designate. (We refer to these as the "**California Tortilla Restaurants"** or the "**Restaurants**.") The distinguishing characteristics of the System include a specially-designed building or facility for restaurant operations, with specially developed equipment, equipment layouts, and signage; distinctive interior and exterior design, trade dress and accessories, including, without limitation, the display of "hot" sauces and other products in a manner that we prescribe; specialized products and procedures for operations; quality and uniformity of products and services offered; procedures for management and inventory control; training and assistance; and advertising and promotional programs. California Tortilla Restaurants typically will be located in retail locations, covered malls, uncovered shopping centers, and/or strip shopping centers, all of which may be in either urban or suburban areas.

We identify the System by means of certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including but not limited to the mark "California Tortilla," "California Tortilla Company" and any other trade names, service marks, and trademarks (the "**Proprietary Marks**"), as are now designated (and may in the future be designated by us in writing) for use in connection with the System.

You must operate your Restaurant according to our standards and procedures, as set out in our Confidential Operating Manuals (the "**Manuals**"). We will lend you a copy of the Manuals for the duration of the Franchise Agreement. In addition, we will grant you the right to use the Proprietary Marks that we designate in writing for use with the System. We may periodically change and improve parts of the System, and you must promptly comply with all new or changed items.

Currently, we have granted one franchise to operate a California Tortilla Restaurant in an airport location. Due to certain rules or contractual restrictions imposed or requested by the airport licensing authority and/or the airport location licensor or lessor, the franchisee could not operate using the Proprietary Marks. For this limited situation, we authorized the franchisee to operate under the name and mark "Burrito Elito." However, the Restaurant operates under and utilizes the System (for example, it sells many of the same menu items as a California Tortilla Restaurant, purchases from the same vendors, follows our standards and specifications, etc.), except this restaurant does not use the name "California Tortilla."

Industry-Specific Regulations

You must comply with all local, state, and federal laws that apply to your Restaurant operations, including, for example, zoning, liquor, health, sanitation, no-smoking, EEOC, OSHA, discrimination, employment, and sexual harassment laws. The Americans with Disability Act of 1990 requires readily accessible accommodation for disabled persons and therefore may affect your building construction, site elements, entrance ramps, doors, seating, bathrooms, drinking facilities, etc. You must obtain real estate permits (*e.g.*, zoning), real estate licenses, and operational licenses. There also may be regulations that pertain to sanitation, labeling, food preparation, food handling, grease and other waste disposal, environmental compliance, and food service. Certain states or local jurisdictions may enact or impose laws, regulations, or rules directed toward owners and operators of restaurants and/or retail stores that operate as a chain, or under a similar brand name, even if the other locations in the chain are not in the same jurisdiction or state. These laws, regulations, or rules may regulate minimum wages, employee benefits, and other labor or employment practices, menu labeling or food content, or other aspects of your business. You should consult with your attorney concerning all federal, state, and local laws and ordinances that may affect your Restaurant's operation. Other than the types of laws and regulations noted above, we are not aware of any regulations or laws directed solely to restaurants, quick-service restaurants, or fast casual restaurants, of the type that are described in this disclosure document.

Competition

You can expect to compete in your market with locally-owned businesses, as well as with national and regional chains, that offer a quick service restaurant experience, including those that specialize in the sale of fast casual California-Mexican cuisine, as well as products that may not be offered at a California Tortilla Restaurant, such as pizza, hamburgers, or sandwiches. The market for these businesses is developing and highly competitive. Quick-service and fast casual restaurant concepts compete on the basis of many factors, such as price, service, location, product quality, promotions and marketing programs. These businesses are often affected by other factors as well, such as changes in consumer taste, economic conditions, seasonal population fluctuation, and travel patterns.

ITEM 2
BUSINESS EXPERIENCE

President & Treasurer; Chairman of the Board of Directors — Robert A. Phillips

Mr. Phillips has been our President and Treasurer since January 2003. Mr. Phillips has been Chairman of the Board of Directors since our inception in January 2003. Mr. Phillips also has been President, Treasurer, and Chairman of the Board of Directors of CalTort since its inception in January 2003. Through his ownership interest in CT-Potomac, Mr. Phillips also has been an owner of the California Tortilla Restaurant in Potomac, Maryland since April 2002. He has served as a Managing Member for Mid Atlantic Management Associates, LLC in Potomac, Maryland since November 1998. From April 1985 until May 2000, Mr. Phillips was President of Montgomery Foods, Inc. in Bethesda, Maryland. Through his ownership interests in Mid Atlantic Management Associates and Montgomery Foods, Inc., Mr. Phillips has owned, managed, and/or operated quick-service restaurants in the Washington D.C. area under the names and/or franchise systems of Everything Yogurt, Broadway Pizza, and Ranch *1.

Chief Operating Officer & Secretary; Director — Keith Goldman

Mr. Goldman has been our Chief Operating Officer since January 2012. He was our Vice President from January 2003 until December 2011, and has been Secretary since January 2003. Mr. Goldman has been a Director since our inception in January 2003. Mr. Goldman also has been Vice President, Secretary and a Director of CalTort since its inception in January 2003. Through his ownership interest in CT-Potomac, Mr. Goldman also has been an owner of the California Tortilla Restaurant in Potomac, Maryland since April 2002, and has served as Director of Operations for Mid Atlantic Management Associates in Potomac, Maryland since November 1998. From January 1997 to November 1998, he was Territory Manager for U.S. Foodservice in Severn, Maryland.

Assistant Secretary; Director — Jeffrey Axelson

Mr. Axelson has served as a Director since January 2003. He was also our corporate counsel from January 2003 until April 2015. Mr. Axelson also has been Assistant Secretary and a Director of CalTort since its inception in January 2003. He has been a practicing attorney since 1975, and is a member of the Maryland, District of Columbia, and Florida Bars. Mr. Axelson is a founding member of the law firm of Axelson, Williamowsky, Bender & Fishman, P.C., in Rockville, Maryland, and served as a shareholder of the firm from 1978 to April 2015. Mr. Axelson has been a member and manager of Mid-Atlantic Management Associates, LLC, which operates fast-food retail establishments.

Director **Pam Felix**

Ms. Felix has been a Director since April 2003. Ms. Felix also served as our Vice President from April 2003 until December 2011. Ms. Felix also was our Director of Marketing from April 2003 until July 2007. Ms. Felix also has been Assistant Secretary and a director of CalTort since its inception in January 2003. Ms. Felix has been general manager and is currently a co-owner of Improv Comedy Club of Washington, D.C. Since January 1995, Ms. Felix also has served as President of Yeeha! and of CT Bethesda in Bethesda, Maryland, which operated one California Tortilla Restaurant until 2018.

Director **Joseph Barone**

Mr. Barone has served as a Member of the Board since April 2002. Mr. Barone also has served on the Board of Mid-Atlantic Management Associates, LLC since 1998. After spending over 30 years as a school teacher, Mr. Barone, in his retirement, currently invests in restaurant ventures and commercial real estate.

Director of Operations **Michael Dolinger**

Mr. Dolinger has been our Director of Operations since August 2019. Mr. Dolinger was the Director of Operations of Paisanos Pizza DC in Washington, D,C. from February 2018 to August 2019. Mr. Dolinger served as the Director of Operations of Clover Restaurant Group in Washington, D.C. from January 2013 to February 2018.

Chief Marketing Officer **Stacey Kane**

Ms. Kane has been our Chief Marketing Officer since February 2020. Ms. Kane has also been a principal of Broadtalk Marketing in Rockville, Maryland since 2014. Prior to starting Broadtalk, Ms. Kane was our Vice President of Marketing from January 2012 to December 2014 and was our Director of Marketing from July 2007 until December 2011.

Note: Unless otherwise indicated, the location of the employer is Potomac, Maryland.

ITEM 3
LITIGATION

No litigation is required to be disclosed in this Item.

ITEM 4
BANKRUPTCY

No bankruptcy is required to be disclosed in this Item.

ITEM 5
INITIAL FEES

Initial Franchise Fee

When you sign the Franchise Agreement you must pay us an initial franchise fee of $40,000 (the "**Initial Franchise Fee**"). If you acquire the rights to develop and own three or more Restaurants, and you sign an Area Development Agreement, the Initial Franchise Fee per Restaurant will be less than $40,000. The fees are discussed below. Also, if you have paid us a Development Fee (see below) under an Area Development Agreement, and the Restaurant is established under the Development Schedule, the Development Fee paid to us will be used toward the payment of the Initial Franchise Fee for the Restaurant, as described below. The Initial Franchise Fee will be non-refundable for administrative and other expenses incurred by us in granting the franchise and for our lost or deferred opportunity to franchise others.

In 2021, one franchisee, who was opening his tenth California Tortilla Restaurant, paid an initial fee of $25,000. Other than as discussed above and in the development fee schedule below, the initial fees are uniform for new franchisees signing Franchise Agreements.

Grand Opening Advertising Program

As discussed in Items 7 and 11 below, you must implement, and pay for, a Grand Opening Advertising Program (defined in Item 11) for marketing and promoting the opening of your Restaurant, according to a marketing plan that you and we will consult on and develop. We will require that you spend up to (but not more than) $10,000 for the Grand Opening Advertising Program (although you are free to spend more than $10,000). We reserve the right to require that you pay to us the required and agreed upon Grand Opening Advertising Program amount ("**Grand Opening Advertising Fee**") at a time that is sufficiently in advance of the scheduled opening of your Restaurant. If we require that you pay the Grand Opening Advertising Fee to us, we will use the Grand Opening Advertising Fee to develop and implement the Grand Opening Advertising Program for your Restaurant. If we spend any amounts on advertising as part of the Grand Opening Advertising Program, in amounts that you and we agree are part of the Grand Opening Advertising Program, you must reimburse us.

Development Fee

If you sign an Area Development Agreement you must pay us a non-refundable development fee (the "**Development Fee**"). The applicable Development Fee will depend on the number of Restaurants you agree to develop, as indicated in the chart below:

Number of Restaurants Developed	Development Fee
1	$40,000
2	$80,000
3	$90,000
4	$120,000
5	$125,000

Number of Restaurants Developed	Development Fee
Each Additional Restaurant	Each additional Restaurant is $25,000 per Restaurant.

If you pay us a Development Fee, you will not pay an Initial Franchise Fee for the Restaurants developed under the Area Development Agreement pursuant to which the Development Fee was paid. These discounted initial franchise fees are only available if you sign an Area Development Agreement and timely pay the applicable Development Fee.

The calculation and structure of the Development Fee is uniform for all developers. Also, when you sign an Area Development Agreement, you must also sign a Franchise Agreement for the first Restaurant at that time. We do not require a commitment of a minimum number of Restaurants to enter into an Area Development Agreement. The Development Fee is not refundable for any reason.

ITEM 6
OTHER FEES

Type of Fee (**Note 1**)	**Amount**	**Due Date**	**Remarks**
Royalty	5% of Net Sales (**Note 2)**	Each Week, on or before the Thursday of each week calculated on the Net Sales for the prior Week	See **Note 2** for the definition of “Net Sales” and “Week.”
Advertising Contribution and CT Creative Fund	Currently 2% of Net Sales, may be increased to 3% of Net Sales (**Note 3**)	Same as Royalty	See the description of “Net Sales” above. In addition, see **Note 3**, and Item 11 below for a description of the Market Cooperative contribution.
On-site Training (**Note 4**)	Our then-current per-diem charges, plus our out-of-pocket costs, up to $150 per day (See **Note 4**)	Upon demand	If at any time you ask that we perform on-site training, and we do so, then you will have to pay our trainers’ expenses. See **Note 4** for a description of these charges.
Training Meals	$250 per person	Upon demand	If you or your employees attend supplemental or additional training, or if you send additional trainees to the initial training program, each of your trainee employees who attends training at a training restaurant will be issued a $250 California Tortilla gift card for use in purchasing meals. The cost of the gift card will be charged to you (See also Item 11.)

Type of Fee (**Note 1**)	**Amount**	**Due Date**	**Remarks**
Site Evaluation	Varies – our reasonable travel expenses	Upon demand	Payable if we deem that on-site evaluation is necessary or appropriate (on our own initiative or at your request).
Architectural Review Fee	$2,500	Upon demand	Payable only if you use an architect or engineer not previously approved or designated by us, and we have our approved architect review your plans.
Canceled Check or Insufficient Funds	$100	Upon demand	If you make a payment to us by check and the check is returned to you from a financial institution without having made payment to us, or if there are insufficient funds in your account from which we will make a withdrawal by electronic funds transfer, then we have the right to charge you the fee. We may also resubmit the EFT payment request to the bank.
Late Payment/late report charge; Interest on Overdue Amounts	$100 per week; 1.5% per month on the underpayment (**Note 5**)	Upon demand	Only due if you don't pay us the amounts you owe us, or do not submit the required reports, on time. Interest will be charged only on overdue amounts and will start to accrue on the date when the payment was originally due.
Additional Review Costs; Reinspection Fee	Will vary under circumstances; travel and labor expenses up to $100 per visit reinspection fee	Upon demand	Only if your quality assurance review requires remediation, and we are required to review and inspect your compliance with the follow-up remediation more than once. You will pay our travel and labor costs for any additional reviews and inspections.
Audit Costs	All costs and expenses associated with the audit, reasonable accounting and legal costs	Upon demand	Payable only if we audit because you did not submit sales statements or keep books and records, or if you underreport your sales or underpay your royalties by 2% or more. (You will also have to pay interest and late fees on the underpayment (see "interest" above and **Note 5**)).

Type of Fee (**Note 1**)	**Amount**	**Due Date**	**Remarks**
Supplier Testing	Will vary	Upon demand, if incurred	If you propose a new supplier of products, and we inspect the supplier or test the supplier's products, we may charge you or the supplier for our costs in conducting those inspections or running those tests.
Transfer Fee	50% of then-current Initial Franchise Fee, or evaluation costs if transfer is not consummated	At the earlier of the transferee franchisee (i) signing a new franchise agreement or (ii) starting training	Payable if you request a transfer and/or if you make a transfer (as defined in the Franchise Agreement), which includes the sale of your franchised business, your company, or a controlling interest in your company. (See **Note 6**)
Securities Offering	$5,000 or our reasonable costs and expenses to review a proposed offering, whichever is greater.	Upon demand	If you propose to make an offering of any securities, you must reimburse us for our reasonable costs (including attorney's and accounting fees) in evaluating your proposed offering.
Renewal Fee	25% of then-current initial franchise fee	Before renewal	Payable if you choose to renew the term of the Franchise Agreement for second term of 10 years.
Costs and Attorneys' Fees	Will vary under circumstances	Upon demand	Only if you are in default under the Franchise Agreement, in which case you must reimburse us for the expenses we incur (including reasonable attorneys' fees) as a result of your default and to enforce and terminate the agreement.
Default Administrative Fee	Will vary under the circumstances	Upon Demand	$100 per occurrence, and $100 for each week such default or non-compliance remains uncured, plus any and all of our costs and expenses to enforce compliance by you or to cure such default, including without limitation attorneys' fees.
Indemnity	Will vary under circumstances	As incurred	You must indemnify us, and reimburse us for our costs (including our attorneys' fees) if we are sued or held liable in any case having anything to do with your business operations.

Notes:

1. All fees are imposed by and are payable to us. All fees are uniformly applied to new system franchisees and are non-refundable. However, in cases and circumstances in which it was appropriate to do so, we have modified some of these fees for a particular franchisee. We reserve the right to obtain payment from you for all fees due to us by way of an electronic fund transfer (or EFT) procedures, described in Note 2 below.

2. The Royalty Fee will be 5% of Net Sales each Week during the term of the Franchise Agreement, including any renewal term.

   The term "**Net Sales**" means all revenue from the sale of all products, including all food and beverage products, all merchandise, and all other products and services offered at or from the Restaurant, and all other income of every kind and nature related to, derived from, or originating from the Restaurant, whether at retail or wholesale, including off-premises catering, special events, or delivery (whether these sales are permitted or not), and proceeds of any business interruption insurance policies, whether any of the products or services are sold for cash, check, or credit, and regardless of collection in the case of check or credit; except that "Net Sales" excludes any customer refunds, discounts from coupon sales, sales taxes, and/or other taxes collected from customers by you and actually transmitted to the appropriate taxing authorities.

   We reserve the right to modify our policies and practices regarding revenue recognition, revenue reporting, and the inclusion or exclusion of certain revenue from "Net Sales", as circumstances, business practices, and technology change. For example, and by way of illustration and not limitation, in the event new technologies and practices, such as "Groupon," "Living Social" and other "deal-of-the-day" discounts, generate revenue for the Restaurant that may not be associated with a particular sale of products, we may establish policies to identify which revenues are, and are not, part of Net Sales.

   We require that you must pay your royalties and CT Creative Fund contributions on a weekly basis. For this purpose, the term "**Week**" means the period starting with the beginning of business on Monday and concluding at the close of business on the following Sunday (or, if the Restaurant is not open on a Sunday, the immediately preceding business day), or any other period of time that we may designate. All payments must be made by electronic funds transfer ("**EFT**"), and you must establish an appropriate EFT and sign the EFT authorization forms that we specify. Currently, you must send us a report of Net Sales and other sales and operating data by close of business on Tuesday, for the Week ending the immediately preceding Sunday. We will draft from your designated bank account, per our EFT process on Friday, and the funds will clear by the following Monday. You must submit or deliver to us any and all reports, statements and/or other information on a timely basis, which may include electronically polled data that we obtain from your point-of-sale system. We may draft funds from your account based on the written or electronically delivered or polled reports. If you fail to make one or more payments on time, we may require that future payments be made by certified, bank, or cashier's check, or another form of payment that we specify.

3. We may require you to contribute an amount which, in the aggregate, is equal to up to 3% of the Net Sales of the Restaurant toward the CT Creative Fund and/or a Market Cooperative (the "**Advertising Contribution**"). Your Advertising Contribution must be paid to the CT Creative Fund or to any Market Cooperative in the proportions that we designate.

Currently, we require you to contribute 2% of the Net Sales of the Restaurant toward the CT Creative Fund. We may change the proportion of this allocation at any time upon written notice to you. The Advertising Contribution must be paid by you in the same manner as the Royalty.

You may be required under the Franchise Agreement to join and contribute to a regional advertising and marketing cooperative (a "**Market Cooperative**"), if one is formed for the area in which the Restaurant is located. These expenditures and contributions are not payable to us and additional details about these payments can be found below in Item 11, under the subheading "Marketing." As discussed below in Item 11, if we or our affiliate contribute to a Market Cooperative, we will have the same voting rights for our California Tortilla Restaurants as do our franchisees for their California Tortilla Restaurants. Currently, there are no Market Cooperatives.

In addition to the Advertising Contribution, we also require you to expend at least $10,000 each year on local advertising and promotion (the "**Minimum Local Advertising Expenditure**").

4. As described in Item 11 below, the initial training program will provide training for a minimum of two, and up to three of your Highly Trained Personnel. "**Highly Trained Personnel**" will include you, or, if you are a corporation, partnership, limited liability company, or limited liability partnership, one of your Principals who you designate to supervise the operation of the Restaurant, and who we have previously approved (the "**Principal Operator**"), and one full-time general manager of the Restaurant (the "**General Manager**"). (If the "Franchisee" is an individual, "you" will also be the "Principal Operator."). If your Principal Operator is also your General Manager, you must designate, and send to training, another person who will have management responsibilities and functions at the Restaurant, and he/she must successfully complete training. This second person will be considered one of the "Highly Trained Personnel". Initial training is conducted only at our headquarters or an affiliate-owned Restaurant that we designate. We may, at our option, train other of your employees as part of the initial training. You are solely responsible for all travel, meal, lodging, and payroll expenses associated with sending attendees to our training programs. You are and will be the employer of your attendees and employees while they are undertaking training. You must have your employees covered by your workers' compensation insurance policy before they attend training. If you request additional training, or if you ask us to provide initial training to more than three of the Highly Trained Personnel, you must pay for all of our travel, meal, and payroll expenses associated with providing the additional training, whether it is delivered and performed at one of our training restaurants (for initial, ongoing or additional training) or at your Restaurant (which would only be for ongoing or additional training).

5. Interest starts to accrue when your payment was initially due. Interest rates will not exceed any maximum rate that may be imposed under applicable law.

6. The transfer fee must be paid at the earlier of the transferee franchisee (i) signing a new franchise agreement, or (ii) starting training. This amount is non-refundable. However, in the event a proposed transfer is not consummated or closed, for any reason except if we disapprove the transfer, you or the proposed transferee must reimburse us for all of our costs and expenses incurred in connection with our evaluation of the proposed transfer, including, for example, attorneys' and accountants' fees, background checks, site evaluation, and training, if applicable (to the extent that the transfer fee paid does not cover those expenses).

ITEM 7
ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Estimated Amount/ (Low-High Range)	Method Of Payment	When Due	Whether Refundable	To Whom Payments to be Made
Initial Franchise Fee (1)	$40,000	Lump sum	Upon signing Franchise Agreement	See Item 5	Us
Real Estate; Site Evaluation; Prepaid Rent and Security Deposit (2)	$19,200 to $30,000	Lump sum	Upon signing lease and as incurred	As negotiated	Landlord
Leasehold improvements (3)	$175,000 to $264,000	As incurred	As incurred	No	Contractors
Signage (4)	$20,000 to $30,000	Lump sum	As incurred	No	Suppliers
Furniture, Fixtures and Equipment (5)	$120,000 to $265,000	Lump sum	As incurred	No	Suppliers
Computers and Equipment (6)	$6,000 to $10,000	Lump sum	As incurred	No	Computer suppliers and equipment suppliers
Initial Inventory & Restaurant Supplies (7)	$7,500 to $15,000	As incurred	As incurred	No	Suppliers
Smallwares (8)	$14,000 to $20,000	As incurred	As incurred	No	Suppliers
Uniforms (9)	$1,500 to $2,500	Lump sum	As incurred	No	Suppliers
Insurance (10)	$1,000 to $2,000	As incurred	As incurred	No	Insurance carrier(s)
Travel and living expenses during training (11)	$0 to $7,000	As incurred	During training	As negotiated	Third parties

Type of Expenditure	Estimated Amount/ (Low-High Range)	Method Of Payment	When Due	Whether Refundable	To Whom Payments to be Made
Grand Opening Advertising (12)	$7,500 to $10,000	As incurred	Within 90 days after opening of the Restaurant	No	Us, advertising suppliers
Miscellaneous Opening Costs (13)	$15,000 to $45,000	As incurred	As incurred	No	Attorneys, accountants and other professionals
Additional Funds (3 Months) (14)	$15,000 to $30,000	As incurred	As incurred	See note 14	Us, suppliers, employees and other creditors
Total Estimated Initial Investment (Note 15)	$441,700 to $770,500				

The table above describes the estimated initial investment required for the construction and/or build-out of a California Tortilla Restaurant. Please review this table in conjunction with the notes that follow.

Notes:

Please note that we do not offer direct or indirect financing to you for any items. The availability and terms of financing from other sources will likely depend on factors such as the availability of financing generally, your creditworthiness, and the policies of lending institutions.

Except as described below, any amounts paid to us are nonrefundable unless otherwise noted below. For any amounts paid to third parties, the availability and conditions under which you may obtain refunds will depend on the terms offered by those third-party suppliers.

1. Initial Franchise Fee. As discussed in Item 5, the Initial Franchise Fee is $40,000. The franchise fee must be paid when the Franchise Agreement is signed. Also, as discussed in Item 5, if you sign an Area Development Agreement, you will be required to pay us a Development Fee as explained in Item 5. The chart does not reflect the payment of Development Fees. We do not require a commitment of a minimum number of Restaurants to enter into an Area Development Agreement.

2. Real Estate; Site Evaluation; Prepaid Rent and Security Deposit. The prototypical California Tortilla Restaurant is approximately 2,300 square feet in size. The cost per square foot for leasing commercial space varies considerably depending upon the location and market conditions affecting commercial property. We estimate the cost of leasing commercial space per square foot to be between $25 and $50 annually (although this figure can vary significantly from market to market). The amounts in the

chart reflect our estimate for your payment of rent for the first three months of operations at the Restaurant. You may also be required to pay prepaid rent and/or a security deposit in connection with leasing space for the operation of the Restaurant. Landlords will vary in the amount they charge for a security deposit; from $0 to several months' rent. We have used a security deposit of one month's rent for the estimate. You should consult a real estate broker and/or other professional in your area to assess the typical leasing costs for your target market area.

3. Leasehold Improvements. You will need to construct improvements of, or "build out," the premises at which you will operate the Restaurant. These improvements may include, for example, wiring, flooring, sheetrock, plumbing, paint, HVAC, lighting, and décor items which must be constructed according to our specifications. These costs are likely to vary depending upon the size, location, configuration, installation costs, and overall condition of the premises, and may be much higher, if you already have or wish to establish your Restaurant in an area where special requirements of any kind (e.g., historical, architectural, or preservation requirements) will apply. A leasehold allowance covering a portion of the costs of constructing the leasehold improvements may be able to be obtained from the landlord. Any allowance will be negotiated between you and the landlord. We cannot estimate the amount, scope or type of allowance that may be available, if any, for a particular site or from any particular landlord. The figures in the chart are for the build-out of a "plain vanilla shell" location. The range reflects estimated costs after receiving allowances from the landlord. If a franchisee acquires or leases existing retail space that may have operated a restaurant or as another type of business, the costs for retrofitting the space with the required leasehold improvements may be more or less than the figures in the chart. There are other variables regarding potential sites that are likely to be site-specific and may impact overall construction and/or operating costs, such as, for example, asbestos or other materials within walls of existing locations, special permitting rules and regulations, special HVAC requirements, or site-specific design criteria. These situations are site-specific and we cannot estimate the costs; a franchisee should evaluate those potential costs for any specific site that might be considered.

4. Signage. Signage includes the exterior store front signs as well as interior signage package and branding elements. However, the specific location and/or shopping center where the Restaurant will be located may have different requirements and regulations dictating the size, layout and illumination of the exterior signage for the Restaurant. You will be required to abide by these regulations, and as a result may experience higher or lower costs for your exterior signage.

5. Furniture, Fixtures and Equipment. You must purchase certain types of furniture, fixtures and equipment included in the California Tortilla equipment package that will be necessary to store, prepare, and serve the full range of California Tortilla food and beverage items. The typical package includes food preparation and cooking equipment, food storage, hood system, refrigeration equipment, tables and chairs for both indoor and outdoor (if applicable) seating, millwork, and other trade dress that are not included as leasehold improvements. The lower end of the range reflects situations in which you are leasing space that was previously a restaurant that contains equipment or hoods that are able to be used in the new California Tortilla restaurant.

6. Computers and Equipment. You are required to purchase certain computer equipment and cash registers to operate your point of sale system ("**POS System**"). The costs incurred for the purchase of the POS System may vary depending upon the number of computer terminals purchased and the configuration of the premises of the Restaurant. Currently, the approved supplier of the California Tortilla POS System is Par Brink. ("Brink") (See Item 8 and Item 11 for additional details).

7. Initial Inventory & Restaurant Supplies. You are required to purchase an opening inventory of goods used in the preparation of products and other supplies from approved suppliers. These items include food, hot sauces, and paper products such as napkins and cups.

8. Smallwares. You must purchase certain items of smallwares including pots, pans, kitchen knives, food processors, and storage containers.

9. Uniforms. You are required to purchase an inventory of complete sets of uniforms to offer to your employees, and to have additional and replacement uniforms available for new or replacement employees that may be hired after opening your Restaurant. A California Tortilla uniform consists of a shirt, hat, and name tag. We recommend that each employee have three to five shirts.

10. Insurance. Deposit for three months' insurance premium for liability insurance. Workers' compensation insurance must be based on your anticipated payroll.

11. Travel and Living Expenses During Training. As described in Item 11, we provide initial training for you or your Principal Operator, your General Manager, and, at our option, any other of your employees whom we have previously approved. You will need to arrange for transportation, lodging and food for yourself (or your Principal Operator) and for your employees during training. The cost will depend on the distance you and your employees must travel and the type of accommodations you choose. You are required to train two Highly Trained Personnel, and the chart reflects estimated costs for two trainees. (See Item 11.)

12. Grand Opening Advertising. Under the Franchise Agreement, we have the right to require you to spend up to $10,000 on the Grand Opening Advertising Program. Based on our recent experience, we anticipate that the total cost of implementing a Grand Opening Advertising Program for new Restaurants will be at least $7,500. You may choose to spend more than the required amount on grand opening advertising and promotions. We will collaborate with and assist you in preparing the Grand Opening Advertising Program. We also reserve the right to require you to pay a Grand Opening Advertising Fee to us sufficiently in advance of the scheduled opening to implement the program, which we estimate will commence approximately one week prior to the scheduled opening date of your Restaurant. If we spend any amounts in the course of implementing the Grand Opening Advertising Program (that you and we agree are part of the Grand Opening Advertising Program), you must reimburse us for these amounts. Additional details regarding the Grand Opening Advertising Program can be found in Item 11, under the subheading "Marketing."

13. Miscellaneous Opening Costs. This estimate covers miscellaneous opening costs and expenses such as the installation of telephones, business licenses, building permits, plumbing/tap fees, other local regulatory costs, legal, architectural, and accounting expenses, recruiting and training costs (excluding any salary or draw from the owner or Principal Operator), and utility deposits.

14. Additional Funds. You will need additional capital to support on-going expenses, such as payroll and utilities, insurance, licenses, inventory, security, repairs and maintenance, and miscellaneous expenses. The estimate includes payroll costs for one manager and other employees, but does not include a salary or draw for you or the Principal Operator. The estimate also includes pre-opening expenses such as organization expenses, and other service-related expenses. The estimate does not include Royalty or CT Creative Fund payments to us. New businesses often generate a negative cash flow. We estimate that the amount given will be sufficient to cover on-going expenses for the start-up phase of the business, which we calculate to be three months. Also, your level of sales will impact your cash flow and the amount of working capital and additional funds that you may need during this start-up phase. This is only an estimate, however, and there is no assurance that additional working capital will not be necessary during this start-up phase or after.

Your credit history could impact the amount (and cost) of funds needed during the start-up phase. If you have no credit history or a weak credit history suppliers may give you less favorable lending and payment terms, which might increase the amount of funds you will need during this period. You will need to have staff on-hand before opening to prepare the Restaurant for opening, for training, orientation, and related purposes.

You should review these figures carefully with a business advisor before making any decision to purchase the franchise. You should take into account the cash outlays and probable losses that you may incur while you are trying to get established. Extensive start-up costs may be involved, depending upon your circumstances.

15. Total. In preparing the figures in this Item 7, we relied on the experience of the existing California Tortilla Restaurants that are owned and operated by affiliates or entities described in Item 1, and on the information provided to us by our franchisees, including the restaurant opening data from our franchisees that opened new Restaurants in 2021. The figures in this Item 7 chart, including for example, leasehold improvements, restaurant equipment, furniture and fixtures, and signage, reflect our current branding and image standards. The figures in the chart and the explanatory notes are only estimates. Your actual costs may vary considerably, depending, for example, on factors such as: local economic conditions; the local market for the Restaurant; the length of time it may take to obtain permits and then build out the space for the Restaurant; the prevailing wage rate; competition; the sales level achieved during the initial period of operation; and your management and training experience, skill, and business acumen. To the extent a location will experience special circumstances, such as additional architectural review and fees for an airport location, or unexpected construction costs, such as the discovery of and removal of hazardous materials, or excessive permitting and licensing issues, some of the costs could be higher than in the chart. You should review these estimates on your own, preferably with a business advisor of your own choosing. If you seek to open and operate multiple California Tortilla Restaurants under an Area Development Agreement, the chart above shows the estimated initial investment for each California Tortilla Restaurant that you develop.

ITEM 8
RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

General

To insure that the highest degree of quality and service is maintained, you must operate the Restaurant in strict conformity with the methods, standards, and specifications as we may periodically prescribe in the Manuals or otherwise in writing.

At all times during the term of the Franchise Agreement, you must:

- offer for sale only those products for which we have given our written approval;
- sell or offer for sale all of the products that we require (except that you may elect not to sell alcoholic beverages);
- not deviate from our standards and specifications, including the manner of preparing products, unless you have received our prior written consent; and
- stop selling and offering for sale any products or services that we have later disapproved.

If you deviate (or propose to deviate) from our standards and specifications, whether or not we have approved, the deviation will become our exclusive property.

You must buy all products, ingredients, supplies, equipment, materials, and other products used or offered for sale at the Restaurant only from suppliers (including manufacturers, distributors, and other sources) that meet our specifications in the Manuals and/or that we have approved in writing. When considering whether to approve any particular possible supplier, we will consider (among others) the following factors: whether the supplier can demonstrate, to our reasonable satisfaction, the ability to meet our then-current standards and specifications; whether the supplier has adequate quality controls and capacity to supply the System's needs promptly and reliably; and whether the supplier's approval would enable the System, in our sole opinion, to take advantage of marketplace efficiencies. You may not buy from any supplier that we have not yet approved in writing, and you must stop buying from any supplier who we approve, but later disapprove. We have the right to designate only one manufacturer, distributor, reseller and/or vendor for any particular item. We may be a supplier of any product, and we may be the sole approved supplier of any product.

If you want to buy any products or any other items from an unapproved supplier, you first must submit to us a written request asking for our approval to do so. You may not purchase from any proposed new supplier until we have reviewed and approved in writing the proposed new supplier, if we think the approval of the supplier is appropriate. Among other things, we will have the right to require that our representatives be permitted to inspect the proposed new supplier's facilities, and that samples from that supplier be delivered either to us or to an independent laboratory that we designate for testing. Either you or the proposed new supplier must pay us a charge (which will not exceed the reasonable cost of the inspection and the actual cost of the tests). There is no limit on the time we may take in evaluating a proposed supplier or product, however we typically will provide you with approval or disapproval of the supplier or product within 30 days from our receipt of your request and all requested samples and information. We also may require that the proposed new supplier comply with certain other requirements that we may deem appropriate, including for example payment of reasonable continuing inspection fees and administrative costs, or other payment to us by the supplier on account of their dealings with you or other franchisees, for use, without restriction (unless otherwise instructed by the supplier) and for services that we may render to our suppliers. Criteria for products and suppliers will include whether the products meet our guidelines under the System. Criteria for suppliers will be made available to you upon request. Suppliers will be judged on their ability to consistently and reliably provide goods that meet our criteria in a timely manner. We reserve the right, at our option, to periodically re-inspect the facilities and products of any approved supplier and to revoke our approval if the supplier does not continue to meet any of our then-current criteria.

Designated, Specified or Approved Suppliers

The types of products and services that you must purchase from approved suppliers, designated sources, us or an affiliate, or according to our specifications, include (among other things): restaurant design and image items, such as décor, color schemes, signs, fixtures, and furniture; cash register and POS; food and paper products; restaurant services such as linen supplies and services, pest control, landscaping, trash removal, grease removal, hood cleanings, and other restaurant maintenance; bookkeeping and accounting services; insurance coverage; and advertising materials.

As discussed in Item 6 above, we encourage you to use the architect(s) or engineer(s) that we have previously approved to design your Restaurant. If you use an architect or engineer that we have not previously approved, we will have your plans reviewed by our approved architect. In that situation, you must pay a $2,500 Architectural Review Fee which we will use to defray a portion of our cost in having your plans reviewed by our architect. (This is generally the fee that the architect charges us.) If we charge any of these fees, we will derive revenue from these fees, but we expect that most or all of such fees will be a "pass-through" to the architect or sign manufacturer. In 2021, we did not charge or collect any of these types of fees.

As discussed in Item 7 above and Item 11 below, we encourage you to use a third-party real estate evaluation company, or utilize competitive sales data from a third-party source, as part of your site selection process. You are free to use another person or entity, or to not use any third-party site evaluation firm.

We reserve the right to require that you use a designated bookkeeping and accounting service for at least two years that will, among other things, provide you and us with standardized accounting and financial reports. Depending on the company and services, we expect that the charges for these services, per franchisee, will include a set-up charge, and a fee of $250 to $500 per month.

We also reserve the right to approve the real estate broker that you may use to assist you in your site selection and lease negotiations, and we reserve the right to designate that you utilize certain real estate brokers for this process. Currently, we do not designate any brokers, but we have a list of recommended brokers who have experience in negotiating leases for California Tortilla franchisees in certain markets.

We are not currently an approved supplier of any product or service used in the operation of Restaurants and, in 2021, we did not derive any revenue from selling goods and services to franchisees.

Southern Sauces, an affiliate owned by two of our officers, is a multi-line distributor and an approved supplier of certain hot sauces, some of which are required products for Restaurants. During the fiscal year ended December 31, 2021, Southern Sauces derived $101,748 from purchases made by California Tortilla franchisees.

We reserve the right to designate ourselves or our affiliates as approved suppliers in the future.

Except as described in this Item, neither we nor our affiliates are an approved supplier of any products used in the operation of Restaurants, and neither we nor our officers maintain an ownership interest in any approved or designated supplier.

You must allow us or our agents, at any reasonable time, to remove samples of products offered in your Restaurant, without payment, in amounts reasonably necessary for testing by us or an independent laboratory to determine whether those samples meet our then-current standards and specifications. We may require you to bear the cost of that testing if we did not previously approve in writing the supplier of the item or if the sample that we take from your Restaurant fails to conform to our specifications.

We estimate that your purchases from approved suppliers or according to our specifications will represent approximately 70% to 85% of your total purchases in the establishment of the Restaurant, and 75% to 90% of your total purchases in the continuing operation of the Restaurant.

We may establish strategic alliances or preferred vendor programs with suppliers that are willing to supply some products or services to some or all of the Restaurants in our system. If we do establish those types of alliances or programs, we may limit the number of approved suppliers with whom you may deal, we may designate sources that you must use for some or all products and services, and we may refuse to approve proposals from franchisees to add new suppliers if we believe that refusal would be in the best interests of the System or the franchised network of Restaurants.

We may collect and retain certain manufacturing allowances, marketing allowances, rebates, credits, monies, payments and benefits (collectively, "**Allowances**") offered to us or to our affiliates by manufacturers, suppliers and distributors based upon your purchases of products and other goods and services. These Allowances are based on System-wide purchases of food, equipment, supplies, paper goods, merchandise and other items. In 2021, we received Allowances based on purchases made by CT-Potomac and CalTort, purchases by the non-franchised licensees described in Item 1 and Item 20, and purchases by franchisees (who were operating in 2021). Our current negotiated Allowances vary from supplier to supplier, and from product to product. For some suppliers and products, there are no Allowances; for others, the Allowances are determined as a specific dollar amount per unit purchased. Some of the Allowances may vary based on purchase volume. In all cases, the prices charged by the suppliers reflect the price negotiated for purchases by California Tortilla system licensees, franchisees and operators. Of the products and suppliers to which an Allowance is applicable, the Allowances in 2021 averaged approximately 2.5% of the purchase price. In 2021, we or our affiliates received a total of $187,628 in Allowances which, together with revenues received from the sales or leases of products to franchisees in 2021 (which were $0), was approximately 12.9% of our total revenues (of $1,449,250) in 2021. A portion of the Allowances was contributed directly to the CT Creative Fund, and a significant portion of the balance of the Allowances was used for brand enhancements and other activities related to promoting the brand (such as image development, brand development, marketing, public relations, marketing and public relations resources, a secret shopper program, etc.). Also, a portion of the Allowances was used for operating expenses, such as distribution management, training, secret shoppers, and franchisee communications, and any remaining amounts represent profits from operations. It is our present intention to contribute all or a portion of any Allowances to the CT Creative Fund or use these monies in a manner that we believe will be in the interest of promoting or enhancing the California Tortilla brand, including, for example, many of the items noted in this paragraph, as well as promotions, merchandising, site designs, and menu and product developments.

We have negotiated, and we may negotiate, purchase arrangements, including price terms, with suppliers regarding various products. In doing so, we seek to promote the overall interests of our franchise system and our interests as the franchisor. Currently, there are approximately 17 of these arrangements, with discounts ranging from 15% to 30% off standard prices. If you purchase from these suppliers, you will receive the volume discount, or other discount, previously negotiated for the entire System. Except as described in this Item 8, we do not provide any material benefits to you (such as preferential renewal rights or granting additional franchises) based on your use of designated or approved suppliers.

Insurance

Under the Franchise Agreement, you must obtain and maintain the insurance coverages and policies that we prescribe in the Manuals. Each insurance policy must be issued by an issuer we approve, who must have a rating of at least "A" in the most recent *Key Rating Guide* published by the A.M. Best Company (or another rating that we reasonably designate if A.M. Best Company no longer publishes the Key Rating Guide) and must be licensed to do business in the state in which the Restaurant is located. All liability and property damage policies must name us as additional insureds and must provide that each policy cannot be cancelled unless we are given sixty days' prior written notice. We may periodically increase required coverage limits or require additional or different coverage to reflect inflation, identification of new risks, changes in the law or standards of liability, higher damage awards and other relevant changes in circumstances. You must deliver to us (and in the future maintain on file with us) valid and current certificates of insurance showing that all required insurance is in full force and effect.

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 disclosure document.

Obligation	Section in Agreement	Disclosure Document Item
a. Site selection and acquisition/lease	§ 1 in Franchise Agreement; Site Selection Addendum; § 3.1 in Area Development Agreement	8 and 11
b. Pre-opening purchases/ leases	§ 5 in Franchise Agreement; Site Selection Addendum; not applicable for Area Development Agreement	5, 7, and 8
c. Site development and other pre-opening requirements	§§ 3.2, 3.3, 5.2, 5.3, 5.4, 5.5, and 10.9 in Franchise Agreement; Site Selection Addendum; §§ 3.3, 5.1 and 5.2 in Area Development Agreement	8 and 11
d. Initial and ongoing training	§§ 3.1, 5.5, and 12.4.8 in Franchise Agreement; § 5.4 in Area Development Agreement	11
e. Opening	§§ 5.2, 5.3 and 5.4 in Franchise Agreement; not applicable for Area Development Agreement	11
f. Fees	§§ 2.2.97, 4, 10.2, and 12.4.8 in Franchise Agreement; § 2.1 in Area Development Agreement; Exhibit O to the disclosure document, Multiple Unit Addendum to the Franchise Agreement	5 and 6
g. Compliance with standards and policies/Operating Manuals	§§ 1.4, 3.4, 5, 7, and 9 in Franchise Agreement; § 5.3 in Area Development Agreement	8, 11, and 14
h. Trademarks and proprietary information	§§ 1.1 and 6 in Franchise Agreement; §§ 1.4 and 1.5 in Area Development Agreement	13 and 14
i. Restrictions on products/ services offered	§§ 1.4, 5.1, 5.11 and 5.12 in Franchise Agreement; not applicable for Area Development Agreement	5, 8, and 16
j. Warranty and customer service requirements	§ 5.7 in Franchise Agreement; not applicable for Area Development Agreement; not applicable for Area Development Agreement	16
k. Territorial development	§§ 1.2 and 1.3 in Franchise Agreement; § 1 in Area Development Agreement	12
l. Ongoing product/service purchases	§ 5 in Franchise Agreement; not applicable for Area Development Agreement	8
m. Maintenance, appearance and remodeling requirements	§§ 2.2.3, 5, and 12.4.5 in Franchise Agreement; not applicable for Area Development Agreement	8
n. Insurance	§ 11 in Franchise Agreement; not applicable for Area Development Agreement	7 and 8

Obligation	Section in Agreement	Disclosure Document Item
o. Advertising	§§1.3, 5 and 10 in Franchise Agreement; not applicable for Area Development Agreement	6, 8, and 11
p. Indemnification	§ 17.4 and Ex. C in Franchise Agreement; § 11 in Area Development Agreement	None
q. Owner's participation/ management/staffing	§§ 5.7, 5.20 and 15 in Franchise Agreement; § 5.3 in Area Development Agreement	15
r. Records/reports	§§ 4.2, 5 and 9 in Franchise Agreement; § 5.5 in Area Development Agreement	6
s. Inspection/audits	§§ 5 and 9 in Franchise Agreement; not applicable for Area Development Agreement	6 and 11
t. Transfer	§ 12 in Franchise Agreement; § 7 in Area Development Agreement	17
u. Renewal	§ 2.2 in Franchise Agreement; not applicable for Area Development Agreement	17
v. Post-termination obligations	§ 14 in Franchise Agreement; § 6.5 in Area Development Agreement	17
w. Non-competition covenants	§ 15 in Franchise Agreement; § 8 in Area Development Agreement	17
x. Dispute resolution	§ 23 in Franchise Agreement; § 15 in Area Development Agreement	17
y. Taxes/permits	§§ 5.2 and 16 in Franchise Agreement; § 10 in Area Development Agreement	1

ITEM 10
FINANCING

Neither we nor any of affiliate or agent of ours offers direct or indirect financing, or guarantees any of your notes, leases or 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.

Pre-Opening Obligations

We are required by the Franchise Agreement to provide certain assistance and service to you.

Before you open your Restaurant:

(1) We will provide to your Highly Trained Personnel (including you or your Principal Operator) and your General Manager our standard initial training program at a location, and at the time(s), that we designate. We will be responsible for the cost of instruction and materials for up to two of your

Highly Trained Personnel, subject to the terms stated in the Franchise Agreement. (Franchise Agreement, Sections 3.1, 5.5) (Training is also discussed below in this Item 11 under the subheading "Training.")

(2) We or our architect will utilize, or will make available to you or your architect, at no charge to you, prototypical architectural plans for use in connection with the construction of the Restaurant and for the exterior and interior design and layout, fixtures, equipment, furnishings, and signs. You must employ an architect or engineer to prepare preliminary plans and specifications based on the design schematics. We will provide a final design review. You are also responsible for compliance with all local and other requirements for the plans, including for example, zoning, code, and compliance with the Americans with Disabilities Act. If you request, we will provide you or your architect with a hard copy of general or prototypical plans for a Restaurant. (Franchise Agreement, Sections 3.2 and 5.2)

(3) We will help you formulate your initial opening orders for inventory and supplies and assist you in organizing the Restaurant. We will have one of our representatives present for assistance and consultation on opening day and approximately three days before, and approximately three days following, the opening of your Restaurant. However, our representative is not required to be on-site more than six hours each day. We will provide any additional on-site and pre-opening and opening supervision and assistance as we deem advisable. (Franchise Agreement, Section 3.3)

(4) We will lend you, for the term of the Franchise Agreement, one copy of the Manuals (which are more fully described in Item 14 below). (Franchise Agreement, Section 3.4)

(5) We will assist you in developing the Grand Opening Advertising Program (which is more fully described in Item 7 and below in this Item 11 of this disclosure document); you will be responsible for the cost of this program. (Franchise Agreement, Section 3.7)

(6) We will inspect the Restaurant before opening. You may not begin operation of the Restaurant without our prior written approval. (Franchise Agreement, Section 3.9)

We are not required by the Franchise Agreement to furnish any other service or assistance to you before the opening of your Restaurant.

We are required under the Area Development Agreement to provide certain assistance and service to you. This includes:

(1) We will furnish to you site selection guidance, including our minimum site characteristics for a location for your Restaurants, and any site selection counseling and assistance we may deem advisable. (Area Development Agreement, Section 5.1)

(2) In response to your request for site approval, we will perform one on-site evaluation per proposed site for each Restaurant to be developed under the Area Development Agreement. We may perform additional on-site evaluations as we may deem advisable in response to your request for site approval. However, we will not be required to provide on-site evaluations for any proposed site in addition to your first proposed site for each Restaurant. (Area Development Agreement, Section 5.2)

(3) Before opening your first Restaurant under the Area Development Agreement, we will provide you (or if you are a corporation, partnership, limited liability company, or limited liability partnership, one of your Principals who is designated to supervise the operation of the area development business and who has been previously approved by us) and one full-time manager of your operations our initial training program. (Area Development Agreement, Section 5.4)

Continuing Obligations

We are required by the Franchise Agreement to provide certain assistance and service to you. During the operation of your Restaurant:

(1) We may conduct, as we deem advisable, periodic inspections of the Restaurant, and may evaluate the products sold and services rendered by your Restaurant. (Franchise Agreement, Section 5.15)

(2) We will make available additional training programs, as we deem appropriate. (Franchise Agreement, Sections 3.1 and 5.5)

(3) We will provide periodic assistance in the marketing, management, and operation of the Restaurant, in the times and in the manner that we determine. (Franchise Agreement, Section 3.10)

(4) We will administer the CT Creative Fund as stated in the Franchise Agreement and as described below in this Item 11. (Franchise Agreement, Section 3.6)

Neither the Franchise Agreement, nor any other agreement, requires us to provide any other assistance or services to you during the operation of the Restaurant.

Site Selection

If at the time you enter into the Franchise Agreement you do not have a Designated Location for the Restaurant, you must sign the Site Selection Addendum attached to the Franchise Agreement as Exhibit B. Under the terms of the Site Selection Addendum, you will have 180 days within which to lease, sublease or acquire a site for the Restaurant, subject to our approval according to our site selection guidelines.

Under the Site Selection Addendum, we will furnish suggested site selection criteria to you, which is currently reflected in advice based on site and demographic factors, and will include our minimum standards for a location for the Restaurant. We will also provide other site selection counseling and assistance that we may deem advisable. In response to your request for site approval, we will perform one on-site evaluation of the proposed site for the Restaurant to be developed. We will perform additional (that is, more than one) on-site evaluations as we may deem advisable in response to your requests for site approval. However, we will not be required to provide on-site evaluations of any proposed site(s) in addition to your first proposed site for the Restaurant. If we deem that on-site evaluation is necessary and appropriate (on our own initiative or at your request) for any Restaurant to be established, you must reimburse us for all reasonable expenses we incur in connection with any additional on-site evaluation, including, without limitation, the cost of travel, lodging and meals.

We reserve the right to require that you submit to us, in the form we specify, various site approval forms and data that we may specify, which may include a copy of the site plan, financial information, and any other materials or information that we may require, together with an option contract, letter of intent, term sheet, or other evidence satisfactory to us which confirms your favorable prospects for obtaining the site. We will have 30 days following receipt of complete submittal of all the information and materials we request from you to approve or disapprove the proposed site for the Designated Location of the Restaurant. If we do not disapprove a proposed site by written notice to you within this 30-day period, the site will be deemed approved.

When considering a site for a California Tortilla Restaurant, we consider factors such as area demographics, configuration and characteristics of shopping center, site specifications (such as size, visibility, parking), and potential lease terms (including the condition of the premises). We will make our site-selection criteria available to you upon request. We do not represent or guarantee that any particular site will achieve any level of sales, revenues or profits.

If you fail to acquire or lease a site for the Restaurant under the Site Selection Addendum within the time required, we may, in our discretion, terminate the Franchise Agreement.

Once authorized, the site for the Restaurant will be the "**Designated Location**." Within 60 days of our approval of the Designated Location, you must execute a lease which must be coterminous with the Franchise Agreement, or a binding agreement to purchase the site. Our approval of any lease is conditioned upon inclusion in the lease of the "Lease Rider," attached to the Franchise Agreement as Exhibit G. We are not responsible for review of the lease for any terms other than those contained in the Lease Rider.

We estimate that the time period between beginning to find a site for the Designated Location and the start of operations at the Restaurant will be approximately nine months. Factors which may affect this time period include your ability to locate a site, negotiate a lease, secure financing, obtain necessary permits and licenses, construct or build-out facilities for the Restaurant, and obtain and install fixtures and equipment, and obtain supplies.

Under the Area Development Agreement, we will provide you with suggested selection criteria (as discussed above), including our minimum standards for your location for the Restaurant and any site selection counseling and assistance as we may deem advisable. For each Restaurant to be developed under the Area Development Agreement, we reserve the right to require that you submit to us, in the form that we specify, site approval forms and data that we specify, which may include a copy of a site plan, financial information and any other materials that we may require, together with an option contract, a letter of intent, term sheet, or other evidence satisfactory to us which describes your favorable prospects for obtaining the site, and any other information and materials that we may reasonably require. No site will be deemed approved unless it has been expressly approved by us in writing. In response to your request for site approval, we will perform one on-site evaluation of the proposed site for each Restaurant to be developed under the Area Development Agreement. We will perform additional on-site evaluations as we may deem advisable in response to your request for site approval. However, we will not be required to provide on-site evaluation for any proposed site(s) in addition to your first proposed site for each Restaurant. If additional (that is, more than one) on-site evaluation is deemed necessary and appropriate by us (on our own initiative or at your request) for any Restaurant to be established, you must reimburse us for all our reasonable expenses including in connection with the on-site visit(s) including, among other things, the cost of travel, lodging, and meals. If you sign an Area Development Agreement, then the selection and approval of a site that may become an Designated Location under a Franchise Agreement entered into under the Area Development Agreement will be governed by the Area Development Agreement and our site review and approval procedures set forth in the Manuals, rather than the Site Selection Addendum. In addition, the time frames and time limits described in the Development Schedule, and not those in the Site Selection Addendum, will apply to the opening of California Tortilla Restaurants under the Area Development Agreement.

We may recommend that you utilize or consult with third parties to provide the site selection and site evaluation assistance described above and in the Franchise Agreement, the Site Selection Addendum and the Area Development Agreement. In addition, we reserve the right to require that you utilize a real estate broker that we designate, approve or recommend to assist you in locating a site and/or negotiating lease terms for an Designated Location.

Training

Before your Restaurant opens, you (or, if you are a corporation, partnership, limited liability company, or limited liability partnership, one of your Principals who you designate as the Principal Operator), and one General Manager, must attend and successfully complete, to our satisfaction, the initial training program that we offer. If your Principal Operator is the same person as your General Manager, you must designate, and send to training, another person who will have management responsibilities and functions at the Restaurant, and she/he must successfully complete the initial training program. Therefore, you must send at least two individuals who will have management responsibilities to training, and both must successfully complete training. The Restaurant must also be under the active full-time management of either you, or your Principal Operator, or a General Manager, or other manager, who has successfully completed (to our satisfaction) our initial training program.

We will bear the cost of initial training (instruction and required materials) for up to three Highly Trained Personnel (which will include either you or, if applicable, the Principal Operator and a General Manager). We may, at our option, offer the initial training to more than three Highly Trained Personnel. You are solely responsible for all travel, meals, lodging and payroll expenses associated with sending attendees to our training programs. If you request additional training or if you ask us to provide initial training for more than three Highly Trained Personnel, you must also pay for all of our travel, meals, lodging and payroll expenses associated with providing the additional training, whether it is delivered and performed at one of our training restaurants or at your Restaurant.

If any of the Highly Trained Personnel cease active management or employment at the Restaurant, then you must enroll a qualified replacement (who must be reasonably acceptable to us) in our initial training program not more than 30 days after the end of the former person’s full-time employment or management responsibilities. This training will be provided by us. You will be obligated to pay all the trainees’ expenses and a fee not to exceed $150 per day.

We may require that any or all of the Highly Trained Personnel attend refresher courses, seminars, and other training programs periodically, including up to ten days of refresher programs each year during the term of the Franchise Agreement. We will bear the cost of this additional training (instruction and required materials). In addition, if you send additional trainees to the initial training program (that is, more than two trainees), or if any employees attend supplemental training, the trainees will be issued a California Tortilla gift card with $250 credited to the gift card for use by your employees, to purchase meals during training. This $250 (per card) will be charged to you.

If you are in default under the Franchise Agreement, your Highly Trained Personnel may also be required to attend refresher courses, seminars, and other training programs as we may reasonably specify periodically, which may include up to ten days of refresher programs each year during the term of the Franchise Agreement. In addition, your Highly Trained Personnel may be required, at our discretion, to attend the annual convention for the California Tortilla system, for up to three days per year. You will bear all expenses incurred in attending all initial and refresher training, such as the costs of transportation, lodging, meals, wages, and workers’ compensation insurance (see Items 6 and 7 of this disclosure document) and fees for training not to exceed $250 per day.

If you ask that we provide additional on-site training, and we are able to do so, then you will pay us our then-current per diem charges and out-of-pocket expenses. Our per diem charges will be specified in the Manuals (currently, $250 per day).

Our initial training program will take place over a four week period, and is generally held six to ten weeks before the Restaurant is scheduled to open. The location(s) of the training will be at locations that we specify, including our headquarters in Potomac, Maryland, and at a California Tortilla Restaurant in Olney, Maryland, or possibly at other locations in the Washington, D.C./Maryland/Virginia region. The following chart outlines our current initial training program:

TRAINING PROGRAM

4-Week Franchisee Training Program

Subject	Hours of Classroom Training	Hours of On the Job Training	Location
Prep/Grill Position Training	4	26	Headquarters/training store
Burrito Line Position Training	6	44	Headquarters/training store
Cashier Position Training	4	16	Headquarters/training store
Store Management - Open MOD Training	4	36	Headquarters/training store
Store Management - Close MOD Training	4	30	Headquarters/training store
POS System, Cash Handling	2	5	Headquarters/training store
Employee Training and Development	2		Headquarters/training store
Local Restaurant Marketing	2		Headquarters/training store
Forecasting and Scheduling, QSRonline scheduling overview	3		Headquarters/training store
Catering	1	2	Headquarters/training store
Financial Management	2	4	Headquarters/training store
Final Exam	3		Headquarters/training store
Certification			
Total	37	163	

Our training program is conducted under the supervision and direction of our Franchise Support Team. Mike Dolinger is Director of Franchise Support and joined the Company in 2018. Mr. Dolinger's prior experience includes Director of Training for Glory Days Grill, Director of Operations for Caribou Coffee and Clover Restaurant Group, and VP of Operations for Paisano's Pizza. Robert Krupenie acts as a Franchisee Consultant. Mr. Krupenie has been with California Tortilla since 2004. He has held various positions including Director of Training. Prior to April 2004, Mr. Krupenie was a general manager for a

Panera Bread store for three years, and he was the owner and operator of Arnolds Deli in Rockville, Maryland from 1992 to 2000. Mr. Krupenie was also a general manager and new store opener for Vie de France from 1984 until 1991. The in-store portion of our training is taught by our training team, which is comprised of seasoned California Tortilla managers. Mr. Dolinger, Mr. Krupenie and Mr. Good will also teach some of the training courses. In addition, Robert Phillips, Keith Goldman, and Stacey Kane (our Chief Marketing Officer) may be involved as training instructors. The backgrounds and experience of these individuals are described in Item 2 of this disclosure document.

Some additional information regarding the initial training program, including when certain training sessions are held, and the materials utilized are as follows:

Subject	**How Often Held**	**Instructional Material**
Prep/Grill Position Training	Day 1-3	Position Training Guide (Prep/grill cook position description guide, recipe cards, daily prep sheet, receiving orders and position quizzes).
Burrito Line Position Training	Day 4-8	Position Training Guide (Burrito line position description guide, menu item review sheet, portion control guidelines, burrito wrapping and folding guide, condiment matrix, placing orders and position quizzes).
Cashier Position Training	Day 9-10	Position Training Guide (Cashier position description guide, menu descriptions, suggestive selling guidelines, cash handling policies and procedures, position quizzes)
Open MOD Training	Day 11-13,17	Management Guide (control forms, opening procedures, recommended shift management procedures, pre-rush checklist, battle plan, quality assurance checklist).
Close MOD Training	Day 14,15,18,19	Management Guide (closing procedures, recommended shift management procedures, key item inventory, closing checklist).
POS System, Cash Handling	Day 12	Management Guide, Loyalty-Gift Card Guide
Employee Training and Development	Day 4	Position Training Guide
Local Restaurant Marketing	Day 14	LSM Online Resource Center (LSM Tool Kit)
Store Management	Day 11-12	Management Guide (Recommended Cash Handling Policies and Procedures).
Forecasting and Scheduling, QSRonline scheduling overview	Day 17	Management Guide (forecasting and scheduling philosophy, labor matrix, line bar schedules).
Final Exam	Day 19	Final Exam
Financial Management	Day 20	Financial Management Guide, weekly package

Subject	How Often Held	Instructional Material
Office Day	Day 20	Business review, grand opening review, catering call center intro, store opening plan.
Certification	Day 20	

Under applicable law, during all hours of operation every food service business must have at least one person working on-premises who has satisfactorily completed the state and/or local mandated food handling training and has been certified as having successfully completed the training. We recommend that each franchisee (or Principal Operator) and its management employees enroll in the ServSafe training program conducted by the National Restaurant Association. You (or your Principal Operator) and all management employees who will attend our training must have successfully completed a state and/or local mandated food handling program (e.g., the ServSafe program) before commencing training with us, and must provide a certificate of successful completion prior to attending California Tortilla training. Also, your employees must be covered by your workers' compensation insurance policy prior to commencing training with us, and you must provide evidence of such coverage upon our request.

<u>Advertising and Marketing</u>

As described in Item 6 above, for each Week during the term of the Franchise Agreement, you will be required to make an Advertising Contribution. The current Advertising Contribution is 2% of Net Sales of your Restaurant during the preceding Week. (See Item 6, note 2, for the definition of the term "Week.") We have the right to raise the Advertising Contribution to 3% after providing written notice to you.

The Advertising Contribution will be paid to the CT Creative Fund or to a Market Cooperative if one is created in proportions that we may designate. We expect that a portion of the Allowances (see Item 8) that we will receive in 2022 will be contributed to the CT Creative Fund, and will be used for the purposes described below. There are no Market Cooperatives currently in existence.

<u>The CT Creative Fund</u>

The CT Creative Fund will be maintained and administered by us or by our designee as follows:

1. We or a designee will have the right to direct all advertising programs, as well as all aspects of the advertising program, including the concept, materials, and media used in the programs and the placement and allocation of the programs. The CT Creative Fund is intended to maximize general public recognition, acceptance, and use of the System; and we and our designee are not obligated, in administering the CT Creative Fund, to make expenditures for you which are equivalent or proportionate to your contribution, to ensure that any particular franchisee benefits directly or pro rata from expenditures by the CT Creative Fund, or to expend any particular amount of money in any franchisee's Territory.

2. The CT Creative Fund, and all contributions to and earnings from the CT Creative Fund, will be used only (except as otherwise provided below) to meet any and all costs of maintaining, administering, directing, conducting, creating, and/or otherwise preparing advertising, marketing, public relations and promotional programs and materials, and any other activities that we believe will enhance the image of the System. This includes, among other things, the costs of preparing and/or conducting media advertising campaigns, social media campaigns, direct mail advertising, marketing surveys and other public relations activities; product development and market testing; brand research and development; developing and hosting marketing, brand development and enhancement, and customer engagement seminars for franchisees; employing advertising and/or public relations agencies to assist therein; brand research and

development; developing and hosting marketing, brand development and enhancement, and customer engagement seminars for franchisees; purchasing promotional items; creating menu boards; developing new or modified trade dress and marks; point-of-purchase (POP) materials; design and photographs; conducting and administering visual merchandising, and other merchandising programs; purchasing media space or time (including all associated fees and expenses); administering regional and multi-regional marketing and advertising programs; market research and customer satisfaction surveys; developing and implementing customer loyalty and gift card programs; customer retention programs; the creative development of, and actual production associated with, premium items, giveaways, promotions, contests, public relation events, and charitable or non-profit events; developing and maintaining our Website (defined below); developing, implementing and maintaining an electronic commerce website and/or related strategies; maintaining and developing one or more websites devoted to the System, the Proprietary Marks and/or the "California Tortilla" brand; providing promotional and other marketing materials and services to the Restaurants operated under the System; and the salaries of Franchisor's employees to the extent such employees provide services in conjunction with System marketing activities. The CT Creative Fund may also be used to provide rebates or reimbursements to franchisees for local expenditures on products, services, or improvements, approved in advance by us, which products, services, or improvements we will have the right to determine, that we believe will promote general public awareness and favorable support for the System. We will have the sole right to decide how the CT Creative Fund creates, places, and pays for marketing.

3. You must contribute to the CT Creative Fund in the manner we specify, which may be by check or by electronic fund transfer (or EFT) if required, by Thursday of each Week (see also Item 6, note 2). All sums you pay to the CT Creative Fund will be maintained in an account separate from our other monies.

4. We will have the right to charge the CT Creative Fund for the reasonable administrative costs and overhead that we incur in activities reasonably related to the direction and implementation of the CT Creative Fund and marketing programs for you and the System (for example, costs of personnel for creating and implementing, associated overhead, advertising, merchandising, promotional and marketing programs, and accounting services reasonably related to the operation and functions of the CT Creative Fund). The CT Creative Fund and its earnings will not otherwise inure to our benefit or be used to solicit the sale of franchises. We or our designee will maintain separate bookkeeping accounts for the CT Creative Fund.

5. The CT Creative Fund is not and will not be used for ordinary operating expenses of our company, and it is not a trust. We do not assume any fiduciary obligation to you or any other franchisee for maintaining, directing, or administering the CT Creative Fund or for any other reason. A statement of the operations of the CT Creative Fund as shown on the books of the Fund will be prepared annually by us, and will be made available to you on an annual basis, upon request. This annual statement is not required to be audited, but we may choose to provide an audited statement.

6. Although the CT Creative Fund is intended to be of perpetual duration, we maintain the right to terminate the CT Creative Fund. The CT Creative Fund will not be terminated, however, until all monies in the CT Creative Fund have been spent for marketing or promotional purposes.

Our current policy is that we or our affiliates that operate California Tortilla restaurants will contribute to the CT Creative Fund on the same basis as is required of our franchisees.

In 2021, the CT Creative Fund monies were used for the following purposes: creative (including advertising agency fees, artwork, graphics, personnel involved in creative endeavors, public relations, and brand development) – 14.26%; production (including photography, monthly production of cards and posters, monthly and quarterly promotions, and e-mail distributions) – 15.18%; media placement (including traditional placements, event marketing, media marketing, website expenses, public relations, and advertising) – 53.40%; and other (including marketing labor, customer retention programs and administrative fees) – approximately 17.15%. None of the amounts collected or held by the CT Creative Fund were used, or will be used, for marketing that is principally a solicitation for the sale of franchises. We may receive payment for providing goods or services to the CT Creative Fund. As described above, we are not required to spend any particular amount on marketing in the area where your Restaurant is located. As also described above, if amounts are unspent in the CT Creative Fund at fiscal year-end, those amounts will be carried over by the Fund for expenditure in the following year(s). In addition, if the entire CT Creative Fund is expended during a fiscal year, we may loan funds to the CT Creative Fund (or obtain loans for the CT Creative Fund from other lenders) to cover any deficit.

Market Cooperative

We will have the right, in our discretion, to establish a Market Cooperative for the geographic region in which your Restaurant is located. The purpose of the Market Cooperative is to conduct marketing campaigns for the California Tortilla Restaurants located in that region.

If a Market Cooperative for your area was established before you began to operate your Restaurant, then when you open your Restaurant, you must immediately join that Market Cooperative. If a Market Cooperative for your area is established after you begin to operate your Restaurant, then you must join the new Market Cooperative within 30 days of the Market Cooperative's beginning of operations. You will not be required to be a member of more than one Market Cooperative. The following provisions will apply to each Market Cooperative (if and when organized):

1. Market Cooperatives will be established, organized, and governed in the form and manner that we have approved in advance. Unless we specify otherwise, the activities carried on by each Market Cooperative will be decided by a majority vote of its members. Any Restaurants that we or our affiliates operate in the region or area in which a Market Cooperative has been established will have the same voting rights as those Restaurants owned by franchisees. Each restaurant owner or franchisee will be entitled to cast one vote for each Restaurant owned. Any disputes arising among or between you, other members of the Market Cooperative, and/or the Market Cooperative, will be resolved according to the rules and procedures set forth in the Market Cooperative's governing documents.

2. Market Cooperatives will be organized for the exclusive purpose of administering regional marketing programs and developing (subject to our approval) standardized promotional materials for use by the members in local advertising and promotion.

3. Market Cooperatives may not use marketing, promotional plans, or materials without our prior written approval, as described below.

4. You must submit your required contribution to the Market Cooperative at the same time as payments are required for royalties and the Advertising Contribution, together with the statements and reports that may be required by us or by the Market Cooperative, with our written approval. If requested by us in writing, you must submit your payments and reports for the Market Cooperative directly to us and we will distribute the money and reports to the Market Cooperative. If we incur administrative expenses in support of the Market Cooperative, these expenses may be paid to us from the funds of the Market Cooperative or from a portion of the Advertising Contribution that would be allocated to the Market Cooperative. As noted above, we may specify that a portion of your Advertising

Contribution will be paid or allocated to the Market Cooperative. The specific amount of your contribution to the Market Cooperative, however, will be determined solely by the Market Cooperative. If you are required to contribute to a Market Cooperative, these contributions will be credited toward your required expenditures for local advertising and promotion, as described below.

5. Although, if established, a Market Cooperative is intended to be of perpetual duration, we maintain the right to terminate any Market Cooperative. A Market Cooperative will not be terminated, however, until all monies in that Market Cooperative have been expended for marketing or promotional purposes.

Local Advertising and Promotion

In addition to the Advertising Contribution, we also require that you spend at least $10,000 each year on local advertising and promotion as the Minimum Local Advertising Expenditure. If you fail to spend $10,000 each year on local advertising and promotion, we may require you to contribute any unspent amount to the CT Creative Fund. We may send you a written notice of any shortfall or under expenditure of your Minimum Local Advertising Expenditure at any time following the end of a calendar year, and you must then pay the shortfall amount to us within 30 days of our notice, or we may withdraw the shortfall amount from your bank account.

Certain criteria will apply to any local advertising and promotion that you conduct. All of your local advertising and promotion must be conducted in the media, type, and format that we have approved, must be conducted in a dignified manner, and must conform to our standards and requirements. You must comply with all of our written instructions, policies, procedures, and restrictions regarding advertising and marketing within your Territory, outside of your Territory, and in areas that may be territories assigned to other California Tortilla restaurants or franchisees (including, for example, rules regarding honoring of gift certificates, stored value cards, and promotions). You may not use any marketing or promotional plans (either in connection with local advertising and promotion, or a Market Cooperative) that we have not approved in writing. You must submit to us samples of all proposed plans and materials at least 10 days before you use the materials. If we have not approved the materials within 10 days of our receipt, then the marketing and promotional materials will be deemed approved. We do not set prices for you, and you are not required to obtain our approval of the prices you intend to charge. However, we have in the past, and may in the future, establish maximum prices at which you may sell products and services.

All copyrights in and to marketing and promotional materials you develop (or that are developed for you) will become our sole property. You must sign the documents (and, at our request, require your independent contractors to sign the documents) that we deem necessary to implement this provision. (The requirements in this paragraph, as well as in the previous paragraph, will also apply to any Market Cooperatives.)

We will periodically make available to you advertising plans for purchase or otherwise at your expense, and promotional materials, including newspaper mats, coupons, merchandising materials, sales aids, point-of-purchase materials, special promotions, direct mail materials, community relations programs, and similar advertising and promotional materials for use in local advertising and promotion. We may provide periodic marketing assistance to you, including, among other things, meetings with our marketing team, telephone and e-mail marketing "hot line" assistance, and templates and other materials for e-mail-based marketing.

As used in the Franchise Agreement, the term "**local advertising and promotion**" refers to only the direct costs of purchasing and producing marketing materials (such as camera-ready advertising and point of sale materials), media (space or time), and your direct out-of-pocket expenses related to costs of advertising and sales promotion in your local market or area. Local advertising and promotion also includes associated marketing agency fees and expenses, postage, shipping, telephone, and photocopying costs. "Local advertising and sales promotion" does not, however, include any of the following:

(a) Salaries, incentives or discounts offered to your employees, and your employees expenses, including salaries or expenses for attendance at advertising meetings or activities, or incentives provided or offered to your employees, including discount coupons;

(b) Charitable, political, or other contributions or donations, whether in cash, food, or services unless otherwise approved;

(c) The value of discounts given to consumers; and

(d) The cost of food items.

As discussed in Items 5 and 7, in addition to (and not in place of) the Advertising Contribution, we have the right to require you to spend up to $10,000 on local advertising and promotion for the grand opening of your Restaurant (the "**Grand Opening Advertising Program**"). We will collaborate with you to develop the Grand Opening Advertising Program. You must have your Grand Opening Advertising Program approved by CTGI, with funds committed to the program, prior to and as a pre-condition to opening your Restaurant. We reserve the right to require that you pay to us a Grand Opening Advertising Fee at least one week before your Restaurant is scheduled to open, so that we may implement the Grand Opening Advertising Plan on your behalf. The Grand Opening Advertising Program must commence before your Restaurant opens and will be completed within 60 days after the opening of your Restaurant. If we spend additional amounts on advertising that you and we agree are part of the Grand Opening Advertising Program, you must reimburse us for the additional expenses, provided that the total cost to implement a Grand Opening Advertising Program will not exceed the sum of $10,000. You may spend any additional sums you wish on opening advertising.

Franchisee Advisory Council

We have created a Franchisee Advisory Council, and the members are elected by franchisees. The Franchisee Advisory Council will advise us on advertising policies. The Franchisee Advisory Council's authority is advisory only. We have the right to form, dissolve, or change the Franchise Advisory Council.

Website

You may not establish a website (defined below), nor offer or promote or sell any products or services or make any use of the Proprietary Marks, through the Internet without our prior written approval. As a condition to granting our consent, we will have the right to establish requirements that we deem appropriate, including the requirement that your only presence on the Internet will be through a webpage established by us on our website. Any website will be deemed "advertising" under the Franchise Agreement, and will be subject to (among other things) our approval. As used in the Franchise Agreement, the term "**Website**" means an interactive electronic document contained in a network of computers linked by communications software. The term Website includes the Internet and World Wide Web home pages.

Other Advertising Policies

Certain associations between you and/or the Restaurant, and/or the Proprietary Marks and/or the System, and/or businesses operating under or products sold under the Proprietary Marks or the California

Tortilla brand names on the one hand, and certain political, religious, cultural or other types of groups, organizations, causes, or activities, on the other, however well-intentioned and/or legal, may create an unwelcome, unfair, or unpopular association with, and/or an adverse effect on, our reputation or the reputation of the System, the California Tortilla brand, or the good will associated with the Proprietary Marks. Accordingly, you may not, without our prior written approval, engage in any activities with, or donate any money, products, services, goods, or other items to, any charitable, political or religious organization, group, or activity, if the action is taken, or may be perceived by the public to be taken, in the name of, in connection or association with you, the Proprietary Marks, the Restaurant, us, or the System.

Computer Systems

You must purchase the computer hardware and software that we specify and which may include the capability to communicate electronically with our computer system. We currently require that you purchase the POS System specified for use in California Tortilla Restaurants. Currently, we specify Par / Brink POS system, but we may change this requirement from time to time. Currently, the cost of the computers and POS System is expected to be approximately $6,000 to $10,000 depending on the number of computer terminals purchased and the configuration. The software to operate the POS system is sold under a subscription services agreement. Under this agreement, you must pay a monthly fee ranging between $189 and $279 per month. This fee covers all software updates as well as the ongoing license fee. The cost of the computer and POS System is also discussed in Item 7 above.

The POS System provides all the basic functions of a standard POS system, including facilitating purchase transactions, receipt generation and sales tracking. The POS System will also be used for administering the gift card and customer loyalty programs. The following is the current information regarding the POS System. You are required to purchase QSRonline to provide back office and polling capabilities. QSRonline is sold by module. You are required to purchase the reporting module, which provides reporting capabilities and remote access to franchisees. You are also required to purchase the labor scheduling and inventory management modules. The monthly cost of QSRonline is $135 per month. You also will need to sign a license agreement with Paytronix that will support your participation in our gift card and customer loyalty program. The current fee for this service is $300 upon signing and then a continuing fee of $125 per month. We cannot predict or estimate future price increases for Par / Brink, QSRonline, Paytronix, or any other vendor.

Should you choose to offer your customers online ordering, you will be required to engage OLO, our approved online ordering platform. Currently, the base fee for this service is $100 per month.

Should you choose to engage third party services (such as Grubhub, Doordash, etc.) for delivery and sales generation, you will be required to ensure that these transactions are integrated into your POS system. This integration may require the use of additional software. We currently specify OLO and GrubHub/Levelup for this purpose. GrubHub charges no fees for integration and OLO charges nothing in addition to their base $100 per month service fee for online ordering.

We have the right to specify or require that you purchase and maintain certain brands, types, makes, and/or models of communications, computer systems, computer software, and hardware be used by, between, or among California Tortilla Restaurants and/or us, including: (a) back office and point of sale systems (in addition to the POS System), data, audio, video, and voice storage, retrieval, and transmission systems for use at Franchisee's Restaurant, between or among Restaurants, and between and among Franchisee's Restaurant and Franchisor and/or Franchisee; (b) physical, electronic, and other security systems; (c) printers and other peripheral devices; (d) archival back-up systems; (e) e-mail systems; and (f) Internet access (collectively, the "**Computer System**").

We reserve the right to download sales and other data from your POS System (and/or Computer System). We will have independent access to that data from the QSRonline system. There is no contractual limitation on our right to receive this information. We reserve the right to require you to bring any computer hardware and software, related peripheral equipment, communications systems, as well as the cash register system, into conformity with our then-current standards for new Restaurants. We have no obligation to assist you in obtaining hardware, software or related services and there are no contractual limits on the frequency or cost of your obligations to obtain these upgrades. (See Sections 2.2.3, 3.8, 5.10, and 5.15 of the Franchise Agreement.)

Manuals

The table of contents of the Manuals is attached to this disclosure document as Exhibit K. The total number of pages in the Manuals is 1021.

ITEM 12
TERRITORY

Franchise Agreement

During the term of the Franchise Agreement, and except as otherwise provided in that agreement, we will not establish nor license anyone else to establish, another California Tortilla Restaurant at any location within the Territory that is designated in your Franchise Agreement. The Territory will be based on a particular area surrounding the Restaurant. The size of the Territory granted will vary from franchise to franchise, but will typically be a three-block radius for an urban location for the Restaurant, and up to a 1.5-mile radius for a suburban location for the Restaurant. Except in unusual circumstances, we do not intend to grant franchises in which the Territory is a radius of less than two blocks in an urban location, or less than one mile in a suburban location. We will determine whether a location is "urban" or "suburban," but an urban location will typically be located in or near a business district of a large metropolitan area, and a suburban location will typically be located near residential areas (that are not part of or included within a central business district) and in or near outdoor strip-malls. We will designate the Territory after you propose, and we approve, the Designated Location for each Restaurant. The Territory specified in the Franchise Agreement is a protected territory, but that protection, or exclusivity, is limited. Specifically, we will have the right (among other things), on any terms and conditions that we deem advisable, and without granting you any rights, to do any or all of the following:

1. establish, and license others to establish, California Tortilla Restaurants at any location outside the Territory despite their proximity to the Territory or the Designated Location or its actual or threatened impact on sales at your Restaurant;

2. establish, and license others to establish, California Tortilla Restaurants at any institutional or captive audience facilities, including, among other things, military bases, airports and other public transportation facilities, government offices or institutions, educational institutions, health care facilities, toll road or highway rest stops, parks, stadiums, malls, museums, art centers, contract or institutional food service operators, in theaters, warehouse clubs, theme parks, amusement centers, truck stops, or casinos ("**Institutional Facilities**") within or outside the Territory, despite their proximity to the Designated Location or their actual or threatened impact on sales at your Restaurant;

3. establish, and license others to establish, restaurants or stores under other systems or other proprietary marks, which restaurants or stores may offer or sell products or services that are different from the products or services offered from the restaurant, and which

restaurants or stores may be located within or outside the Territory, despite these Restaurants' or stores' proximity to the Designated Location or their actual or threatened impact on sales at your Restaurant;

4. in the event we or our affiliates acquire another chain or system, or we or our affiliates are acquired by another chain or system, that operates and/or franchises restaurants or stores that are the same or similar to California Tortilla Restaurants in that they have a substantially similar menu or similar theme or concept, we or our affiliates may establish, acquire or operate, or license others to establish and operate, restaurants or stores under other systems or other marks, which restaurants or stores may offer or sell products or services that are the same as, or similar to, the products and services offered from the Restaurant, and which restaurants or stores may be located within or outside the Territory, despite these restaurants' or stores' proximity to the Designated Location or their actual or threatened impact on sales at your Restaurant;

5. sell and distribute, directly or indirectly, or license others to sell and distribute, directly or indirectly, any products, services or merchandise, from any location or to any purchaser (including, but not limited, to sales made at retail locations, supermarkets, gourmet shops, by mail order, and on the Internet), as long as these sales are not conducted from a California Tortilla Restaurant operated from a location inside the Territory (excluding an Institutional Facility); and

6. conduct catering sales, and/or permit affiliates, licensees and/or other franchisees to conduct catering sales, to customers located in your Territory if you are not certified or qualified by us under our then-current rules, policies and conditions to conduct catering.

As discussed above, the territorial protection or exclusivity is limited. Therefore, 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 offer and sell products only from the Restaurant, only according to the requirements of the Franchise Agreement and the procedures set forth in the Manuals and only to retail customers for consumption on the Restaurant's premises or for personal, carry-out consumption. You may conduct catering from your Restaurant if you obtain our prior approval and satisfy our operating standards for catering. You may not offer or sell products or services authorized under the Franchise Agreement through any other means, including without limitation, through delivery, satellite locations, temporary locations, carts, or kiosks, via telephone, mail order, the Internet, or through any electronic media, without our prior written approval, and only according to our policies as they may be developed and/or modified periodically. We may develop rules or policies, on our own, and/or in conjunction with our Franchisee Advisory Council regarding catering or delivery out of one's territory. Any rules or policies will be communicated to you (in writing or electronically) before they become effective. The Franchise Agreement does not contain any provisions under which you might receive any options, rights of first refusal or similar rights to acquire additional franchises within the Territory or in any contiguous areas. The Franchise Agreement (and the Development Agreement) do not require that we pay any compensation for soliciting or accepting orders for products or services within a franchisee's Territory or a developer's Development Area.

The continuation of your territorial exclusivity does not depend on the achievement of any particular sales volume, market penetration, or other contingency. If you default under the Franchise Agreement, we reserve the right to undertake certain actions in lieu of termination of the Franchise Agreement, including modifying, or eliminating completely, the Territory.

You may not relocate your Designated Location without our prior written consent. We will consider your request, and will likely consider factors similar to factors that we consider and evaluate when making decisions regarding a request for approval of a new Restaurant site.

Area Development Agreement

As described in Item 1, if you sign an Area Development Agreement, you will receive a Development Area in which you must develop California Tortilla Restaurants. If you are in compliance with your obligations under the Area Development Agreement and all Franchise Agreements between you and us, then we will not establish, nor license anyone other than you to establish, a California Tortilla Restaurant in the Development Area until the earlier of (a) the termination or expiration of the Area Development Agreement; (b) the opening of the last required Restaurant under the Development Schedule; or (c) the last date specified in the Development Schedule, except as otherwise provided below. The Development Area in the Area Development Agreement is a protected territory, but that protection or exclusivity is limited. Specifically, we will retain all other rights, and therefore we retain the right (among others), and without granting to you any rights, to:

1. establish, and license others to establish, California Tortilla Restaurants at any location outside the Development Area despite their proximity to any California Tortilla Restaurants you may operate within the Development Area, or their actual or threatened impact on sales at these California Tortilla Restaurants;

2. establish, and license others to establish, California Tortilla Restaurants at Institutional Facilities within or outside of the Development Area, despite these California Tortilla Restaurants' proximity to the Development Area, any California Tortilla Restaurant developed or operated pursuant to the area Development Agreement, or the actual or threatened impact on sales of any California Tortilla Restaurant.

3. establish, and license others to establish, Restaurants or stores under other systems or other proprietary marks, which restaurants or stores may offer or sell products or services that are different from the products and services offered from California Tortilla Restaurants, and which restaurants or stores may be located within or outside the Development Area, despite these restaurants' or stores' proximity to any California Tortilla Restaurants you may operate within the Development Area, or their actual or threatened impact on sales at these California Tortilla Restaurants;

4. in the event we or our affiliates acquire another chain or system, or we or our affiliates are acquired by another chain or system, that operates and/or franchises restaurants or stores that are the same or similar to California Tortilla Restaurants in that they have a substantially similar menu or similar theme or concept, we or our affiliates may establish, acquire or operate, or license others to establish and operate, restaurants or stores under other systems or other marks, which restaurants or stores may offer or sell products or services that are the same as, or similar to, the products and services offered from the Restaurant, and which restaurants or stores may be located within or outside the Development Area, despite these restaurants' or stores' proximity to any California Tortilla Restaurant you may operate within the Development Area, or their actual or threatened impact on sales at your Restaurant; and

5. sell and distribute, directly or indirectly, or license others to sell and distribute, directly or indirectly, any products, services or merchandise, from any location or to any purchaser (including, but not limited, to sales made at retail locations, gourmet shops, by mail order,

via telephone, and on the Internet), as long as these sales are not conducted from a California Tortilla Restaurant operated from a location inside the Development Area (excluding an Institutional Facility).

As discussed above, the territorial protection of the Development Area is limited. Therefore, you will not receive an exclusive territory. You may face competition from other franchisees, from other outlets that we own, or from other channels of distributions or competitive brands that we control.

If you sign an Area Development Agreement and successfully complete the Development Schedule, and if you are then in compliance with all terms and conditions of the Area Development Agreement and all Franchise Agreements between you and us, then for two years following your successful completion of the Development Schedule (the "**Option Period**"), we will not establish, nor authorize any third party to establish, California Tortilla Restaurants within the Development Area. If, however, during the Option Period, we determine that it is desirable to establish (ourselves or through third party franchisees) additional California Tortilla Restaurants within the Development Area, and as long as you remain in compliance with the terms and conditions of all Development Agreements and all Franchise Agreements between you and us, we will first present you with written notice of the terms and conditions of our proposed development of additional California Tortilla Restaurant(s) within the Development Area (the "**New Restaurant(s)**"), and you will have a right of first option to establish these additional California Tortilla Restaurant(s) in lieu of us (and/or third party franchisees). You will have 30 days to notify us in writing of your intent to exercise the right to establish the New Restaurant(s), to execute an Area Development Agreement and/or Franchise Agreement(s) for these New Restaurant(s), and to pay the initial fees due under the new Area Development Agreement and/or Franchise Agreement(s). If you fail to respond to the notice within said 30 days, and or pay the required fee, or if you fail to adhere to any requirements set forth in the notice, you will have no additional right to develop, establish or operate the New Restaurant(s), and we will have the right to establish the New Restaurant(s), or to franchise third parties to establish the New Restaurant(s) under the same terms and conditions as those offered to you. If you exercise your right to develop New Restaurants during the Option Period, you must execute an Area Development Agreement and/or Franchise Agreement(s), and all other documents required by us, within thirty (30) days of your response.

The continuation of your territorial exclusivity in the Development Area does not depend on the achievement of any particular sales volume, market penetration, or other contingency, except satisfaction of your Development Schedule. If you default under the Area Development Agreement, we reserve the right to undertake certain actions in lieu of termination of the Area Development Agreement, including modifying, or eliminating completely, the Development Area.

ITEM 13
TRADEMARKS, SERVICE MARKS, TRADE NAMES, LOGOTYPES, AND COMMERCIAL SYMBOLS

We grant you the right to use certain Proprietary Marks under the Franchise Agreement. We have registered, the following Proprietary Mark with the U.S. Patent and Trademark Office (the "**USPTO**") on its Principal Register:

Name or Mark	Registration (or Serial) Number	Registration (or Filing) Date
CALIFORNIA TORTILLA	Reg. #: 3,034,390	December 27, 2005

Name or Mark	Registration (or Serial) Number	Registration (or Filing) Date
California TORTILLA®	Reg. #: 4245053	November 20, 2012
CALIFORNIA TORTILLA & Design	Reg. #: 3,688,855	September 29, 2009
CALIFORNIA TORTILLA & Design	Reg. #: 3,688,856	September 29, 2009
CALIFORNIA TORTILLA COMPANY & Design	Reg. #: 1,923,056	September 26, 1995

We have timely filed, and intend to timely file, with the USPTO all required affidavits of use and an affidavit of incontestability, when due, for the marks noted above.

As discussed in this disclosure document, all new California Tortilla Restaurants will implement the new branding and imaging, which includes the logo on the cover of this disclosure document. In addition, as discussed in Item 1 above, we granted two franchises for California Tortilla Restaurants that were required to use a different name and mark, and we amended those franchise agreements to authorize the franchisee to use the mark "Burrito Elito." We have a federal trademark registration for "Burrito Elito" on the Principal Register of the USPTO: registration Number 4151535; registered May 29, 2012.

There are no currently effective material determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court, and no pending infringement, opposition, or cancellation proceeding, or any pending material litigation, involving the Proprietary Marks. There is no agreement in effect which significantly limits our rights to use or license the Proprietary Marks in any state in a manner material to the franchise, and we know of no superior prior rights or infringing uses that could materially affect your use of the Proprietary Marks in any state.

You must promptly notify us of any unauthorized use of the Proprietary Marks, any challenge to the validity of the Proprietary Marks, or any challenge to our ownership of, right to use and to license others to use, or your right to use, the Proprietary Marks. We have the right to direct and control any administrative proceeding or litigation involving the Proprietary Marks, including any settlement. We have the right, but not the obligation, to take action against uses by others that may constitute infringement of the Proprietary Marks.

If we undertake the defense or prosecution of any litigation concerning the Proprietary Marks, you must sign any documents and agree to do the things as may, in our counsel's opinion, be necessary to carry out that defense or prosecution, such as becoming a nominal party to any legal action. Unless the litigation is the result of your use of the Proprietary Marks in a manner inconsistent with the terms of the Franchise Agreement, we will reimburse you for your out of pocket costs in doing these things (although you will still be responsible for the salary costs of your employees) and we will bear the costs of any judgment or settlement. However, if the litigation results from your use of the Proprietary Marks in a manner inconsistent with the terms of the Franchise Agreement, then you will have to reimburse us for the cost of the litigation, including attorneys' fees, as well as the cost of any judgment or settlement.

If it becomes advisable at any time in our sole judgment for you to modify or discontinue using any Proprietary Mark or for you and the Restaurant to use one or more additional or substitute trade or service marks, you will have to immediately comply with our directions. Neither we nor our affiliates will have any obligation to reimburse you for any expenditures you make because of any discontinuance or modification.

ITEM 14
PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

Patents

No patents are material to the operation of your Restaurant.

Copyrights

We claim copyright protection covering various materials used in our business and the development and operation of California Tortilla Restaurants, including the Restaurant trade dress and custom interiors, the Manuals, advertising and promotional materials, and similar materials (discussed below). We have not registered these materials with the United States Registrar of Copyrights, but we are not required to do so. We may register one or more of these items or copyrightable materials in the future.

There are no currently effective determinations of the United States Copyright Office or any court, nor any pending litigation or other proceedings, regarding any copyrighted materials. No agreement limits our rights to use or allow franchisees to use the copyrighted materials. We do not know of any superior prior rights or infringing uses that could materially affect your use of the copyrighted materials. No agreement requires us to protect or defend our copyrights or to indemnify you for any expenses or damages you incur in any judicial or administrative proceedings involving the copyrighted materials. No provision in the Franchise Agreement requires you to notify us of claims by others of rights to, or infringements of, the copyrighted materials. If we require, you must immediately modify or discontinue using the copyrighted materials. Neither we nor our affiliates will have any obligation to reimburse you for any expenditures you make because of any discontinuance or modification.

Confidential Information

Except for the purpose of operating the Restaurant under the Franchise Agreement, you may never (during Franchise Agreement's term or later) communicate, disclose, or use for any person's benefit any of the confidential information, knowledge, or know-how concerning the operation of the Restaurant that may be communicated to you or that you may learn by virtue of your operation of the Restaurant or your operations under the Franchise Agreement. You may divulge confidential information only to those of your employees who must have access to it in order to operate the Restaurant. Any and all information, knowledge, know-how, and techniques that we designate as confidential will be deemed confidential for purposes of the Franchise Agreement, including any information gathered through the POS System and/or Computer System. However, this will not include information that you can show came to your attention before we disclosed it to you; or that at any time became a part of the public domain, through publication or communication by others having the right to do so. There may be certain, limited circumstances where applicable law allows for the disclosure of certain trade secrets, as specified in the Manuals.

In addition, we may require you, your Principal Operator, your Highly Trained Personnel, and any employee who may have access to any confidential information to sign non-disclosure and non-competition covenants. Every one of these covenants must provide that the person signing will maintain the confidentiality of information that they receive in their employment or affiliation with you or the Restaurant. These agreements must be in a form that we find satisfactory, and must include, among other things, specific identification of our company as a third party beneficiary with the independent right to enforce the covenants. Our current form for this agreement is attached to the Franchise Agreement as Exhibit H.

Confidential Manuals

In order to protect our reputation and goodwill and to maintain high standards of operation under our Proprietary Marks, you must conduct your business according to the Manuals. We will lend you one set of our Manuals for the term of the Franchise Agreement. The Manuals may be multiple volumes with printed text, video, and/or audiotapes and files, computer disks, and other electronically stored data. We may provide a portion or all of the Manuals (including updates and amendments) and other instructional information and materials in, or via, electronic media, including through the Internet.

You must always treat in a confidential manner the Manuals, any other manuals we create (or that we approve) for use with the Restaurant, and the information contained in the Manuals. You must use best efforts to maintain this information as secret and confidential, protected from viewing by others, and treat the Manuals with the same degree of care as you would treat your most highly confidential documents. You may not copy, duplicate, record, or otherwise reproduce the Manuals and the related materials, or any portion of the Manuals (except for the parts of the Manuals that are meant for you to copy, which we will clearly mark as such), nor may you otherwise let any unauthorized person have access to these materials. The Manuals will always be our sole property. You must always keep the Manuals in a secure place at the Restaurant's premises.

We may periodically revise the contents of the Manuals, and you must make corresponding revisions to your copy of the Manuals and comply with each new or changed standard immediately upon receipt of the revision. If there is ever a dispute as to the contents of the Manuals, our master copy of the Manuals (maintained at our home office) will be controlling.

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

The Franchise Agreement does not require that each owner of the franchisee participate personally in the direct daily operations of the Restaurant, although we encourage and recommend active participation by you. If the franchisee is a sole proprietor, then you, as the franchisee, must be engaged in the active, full-time management of the business. Also, we require that the daily operations of the Restaurant be under the active full-time management of either you or your Principal Operator. Your Principal Operator must have at least a 20% beneficial equity interest in the franchisee entity.

We will strongly discourage franchisees from conducting the Franchised Business as an absentee owner, and we may not grant franchises to prospective franchisees that do not propose, and then implement, an ownership and management structure and plan in which the franchisee or one of the owners of the franchisee entity who is the Principal Operator is actively managing the Franchised Business on a daily basis.

If the "Franchisee" is an entity (and not a sole proprietorship) we will require that you propose an ownership structure for our approval. You must designate, subject to our review and approval or disapproval, individuals to serve in the following positions:

(a) Principal Operator: the Principal Operator will be a person who owns not less than twenty percent (20%) of the outstanding equity interests in the franchisee entity (or is the Franchisee if the Franchisee is a sole proprietorship), and who will be responsible for the operation and management of the Restaurant. The Principal Operator is the individual responsible for all communications between you and us, is the person to whom, and from whom all notices required under the Franchise Agreement must be sent, and is your principal spokesperson in all communications with us and other franchisees and operators in the California Tortilla network of restaurants. The Principal Operator must have the right to contractually bind you. The Principal Operator must successfully complete all Restaurant operations training programs, and will be responsible for communications with us and our staff regarding all Restaurant operational matters, including compliance with all Franchise Agreement and Manual requirements that pertain, in any way, to the Restaurant. As the owner of twenty percent (20%) or more of the outstanding equity interests of the franchisee entity, the Principal Operator must execute the Guarantee in the form set forth in Exhibit C to the Franchise Agreement. The Principal Operator must comply with all of our standards and requirements as they may be modified from time to time in the Manual or otherwise in writing. You may designate a new Principal Operator, subject to our prior written approval, and satisfaction of all of our requirements for Principal Operators, and revision of Exhibit D to the Franchise Agreement.

(b) General Manager: You must designate a Restaurant general manager, subject to our approval, and satisfactory completion of our training programs, who will be responsible for the direct oversight and management of the day-to-day operations and personnel at the Restaurant (the "General Manager"). At least one general manager will be the General Manager who is required to attend the initial training program. The General Manager and the Principal Operator may be the same person, if he/she is qualified to perform both roles and duties and is approved by Franchisor. As noted in Item 11, and Section 5.5 of the Franchise Agreement, you must send two management level people to our initial training program.

(c) Principals: A Principal is any person that has any direct or indirect interest in the franchisee entity, or in any entity that has any direct or indirect ownership interest in you. All Principals, along with their ownership interest shall be identified in Exhibit D to the Franchise Agreement, and any change in ownership or Principals, must be provided to us, in advance and in writing, and Exhibit D must be amended to reflect all changes in Principals.

Our approval of a Principal Operator and/or General Manager will be based on whether the proposed Principal Operator and General Manager have a good business reputation, appear to have the business and interpersonal skills and acumen to manage this type of business, are not competitors of ours, and whether they can successfully complete our training program. All persons that later serve in the positions of Highly Trained Personnel must be approved by us and must attend and successfully complete our initial training program which is described in Item 11 of this disclosure document. After the initial Principal Operator and General Manager, any replacements will also be subject to our reasonable approval, and are required to attend and successfully complete our training program. See Items 11 and 17 for a description of these obligations. We require your Principals (including the Managing Owner and Principal Operator), supervisors and managers to sign a non-disclosure and non-competition agreement, the current form of which is attached to the Franchise Agreement as Exhibit H.

Each present and future: (i) shareholder with at least a 20% equity interest in you if you are a corporation and/or (ii) member with at least a 20% equity interest in you, and each managing member, if you are a limited liability company; and/or (iii) partner (limited or general partner) with at least a 20% equity interest in you, and each general partner, if you are a partnership or limited liability partnership and each Principal Operator, must jointly and severally guarantee your performance of each and every provision of the Franchise Agreement by executing the Guarantee, Indemnification and Acknowledgement in the form attached to the Franchise Agreement as Exhibit C, and/or the Area Development Agreement as Exhibit B. However, we will not require that a guarantee be signed by a person who acquires your securities (other than a controlling interest) if and after you become registered under the Securities Exchange Act of 1934. For purposes of calculating the interest of a person, all interests held by the following will be attributed, requiring guarantees from all of these individuals or entities: (a) family of an individual including his brothers and sisters (whether by whole or half-blood), spouse, ancestors, lineal descendants, and spouses of any of these individuals and lineal descendants of any of these spouses; and (b) any entities controlled in the aggregate by some or all of these individuals. In addition, we may require that your spouse (or your domestic partner or other family member) sign the Guarantee, Indemnification and Acknowledgment. Our current policy is that we generally will not require a guarantee from a spouse (or domestic partner or other family member) at the time of signing the Franchise Agreement if the individual franchisee, or the individual owner of the franchisee that is signing the Guarantee, Indemnification and Acknowledgment has a net worth of at least one million dollars. We may revise our policy from time to time.

You must maintain a competent, conscientious, trained staff in numbers sufficient to promptly service customers, including at least one General Manager. You also must take any steps as are necessary to ensure that the General Manager(s) and all Restaurant employees preserve good customer relations, adhere to our performance guidelines in the Manuals, and comply with all applicable state and/or local board laws, regulations and guidelines.

Other than as described above, we do not impose any other restrictions on your managers.

You must comply with all applicable labor, employment and wage and hours laws and regulations. All personnel decisions, including hiring, firing, disciplining, compensating, benefits, and scheduling, will be made by you, without any influence from us, and such decisions and actions will not be, nor be deemed to be, a decision or action of ours, even if we provide any advice or recommendations on any issue.

ITEM 16
RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You may sell and provide only products and services that conform to our standards and specifications (which are described in Items 1 and 8 above). Unless otherwise permitted by us, you must offer and sell only products and services previously authorized by us and only from the Restaurant, only according to the requirements in the Franchise Agreement and the procedures set forth in the Manuals, and only to retail customers for consumption on the Restaurant's premises or for personal, carry-out consumption. You may provide catering services from your Restaurant if you obtain our prior approval and you satisfy our operating standards for catering. (Our approval will apply prospectively for all catering operations and your ability to provide catering services on a regular basis. You need not seek our approval of, and we do not approve or disapprove, individual catering jobs or engagements.)

You may not engage in, or conduct, delivery services without our approval. Specifically, you may not conduct, engage in, subcontract to third parties, utilize on-line or Internet-based delivery scheduling companies or applications, or authorize or permit any person, entity or third party to engage in, delivery operations at or from the Restaurant, unless such delivery operations or program has been expressly approved, in writing, by us. We may grant or not grant such approval in our sole discretion. We may condition our approval on, among other things, (a) your strict compliance with the Franchise Agreement and the standards and specifications for Restaurant operations in the Manual, and (b) your strict compliance with the delivery rules, procedures, requirements or standards that we may establish. These rules may include obtaining and maintaining additional and specialized insurance, and purchasing (or leasing) and using new or additional equipment and software for ordering, tracking, and reporting on deliveries, implementing a new or modified point of sale system(s), and utilizing required packaging.

You may not offer or sell products or services authorized under the Franchise Agreement through any other means, including satellite operations, temporary locations, carts or kiosks, the Internet, or through any electronic media, without our prior written approval, and only according to our policies as they may be developed and/or modified periodically. We have the right, without limit, to change the types of authorized products and services. You must sell all products and services specified by us, except that you may elect not to sell alcoholic beverages or smoothies at your Restaurant. There are no limitations on the customers you may serve at your Restaurant.

We may change, supplement, improve, or modify the System at any time, as we deem appropriate. These changes may include, among others, the adoption or use of new or different products, services, equipment and furnishings for Restaurants; development of new techniques and methods for the promotion and sale of products and services at Restaurants; and the use of new marks or copyrights. Despite the cost limitations on certain equipment upgrades (described in Section 5.10.4 of the Franchise Agreement), you must, upon reasonable notice, accept, adopt, implement, use, and display any change to the System we may make, at your expense. There are no limits on our right to make changes.

As noted above in Item 12, you may not offer or sell products or services authorized under the Franchise Agreement through any other means, including without limitation through satellite locations, temporary locations, mail order, telephone, the Internet, or through any electronic media.

The Designated Location for the Restaurant will be specified in the Franchise Agreement. You may not relocate the Restaurant without our prior written approval.

ITEM 17
RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

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

Provision	Section in Franchise Agreement	Summary
a. Length of the Franchise Term	§ 2.1	Shorter of 10 years or the term of the lease (including option period)
b. Renewal or extension of the Term	§ 2.2	Two additional 10-year terms

Provision	Section in Franchise Agreement	Summary
c. Requirements for you to renew or extend	§ 2.2	Notice, satisfaction of monetary obligations, compliance with Franchise Agreement, release us (see Exhibit L), sign new Franchise Agreement, pay renewal fee, and others; see §§ 2.2.1 - 2.2.9 in Franchise Agreement. The new agreement that you must sign at renewal may contain terms and conditions that are materially different than the original contract. (See also Note 1)
d. Termination by you	Not Applicable	
e. Termination by us without cause	Not Applicable	
f. Termination by us with cause	§ 13	Default under Franchise Agreement, bankruptcy, abandonment, and other grounds; see § 13 of the Franchise Agreement. Under the U.S. Bankruptcy Code, we may be unable to terminate the agreement merely because you make a bankruptcy filing. (See Notes 1 and 3)
g. "Cause" defined – curable defaults	§ 13.3	All other defaults not specified in §§ 13.1 and 13.2 of the Franchise Agreement
h. "Cause" defined - non-curable defaults	§§ 13.1 and 13.2	Bankruptcy, abandonment, conviction of felony, violation of covenants, maintaining false books or records, multiple defaults in 12 months, and others; see § 13.2. of the Franchise Agreement. (Under the U.S. Bankruptcy Code, we may be unable to terminate the agreement merely because you make a bankruptcy filing.)
i. Your obligations on termination/ nonrenewal	§ 14	Cease operating Restaurant, payment of amounts due, and others; see §§ 14.1 – 14.10 of the Franchise Agreement.
j. Assignment of contract by us	§ 12.1	There are no limits on our right to assign the Franchise Agreement.
k. "Transfer" by you – defined	§§ 12.3.1 - 12.3.4	Includes transfer of any interest.
l. Our approval of transfer by you	§ 12.4 and § 12.5	We have the right to approve transfers.

Provision	Section in Franchise Agreement	Summary
m. Conditions for our approval of transfer	§ 12.4 and § 12.5	Release us (see Exhibit L), signing of new Franchise Agreement, payment of transfer fee, and others; see §§ 12.4.1 - 12.4.10 of the Franchise Agreement.
n. Our right of first refusal to acquire your business	§ 12.6	We have a right of first refusal. If you or one of your Principals plans to sell or transfer any material asset of the Restaurant or the entity owning the business to a third party, you and/or the Principal must first offer the assets or interest to us under the same terms and conditions. If we do not wish to acquire the assets or interest, you and/or the Principal may then transfer them to the third party.
o. Our option to purchase your business	§ 14.9	We have the option, within 30 days of termination or default, to purchase your furnishings, equipment, material, or inventory at cost or fair market value.
p. Your death or disability	§§ 12.7, 12.8 and 12.9	Your estate must transfer your interest in the Franchised Business to a third party we have approved, within a year after death or six months after the onset of disability.
q. Non-competition covenants during the term of the franchise	§ 15.2	Includes prohibition on engaging in any business which is the same or similar to the Restaurant; see § 15.2 of the Franchise Agreement.
r. Non-competition covenants after the franchise is terminated or expires	§ 15.3	Includes a two year prohibition similar to "q" (above), at the Designated Location, within the Territory, within ten miles of the Designated Location, or within five miles of any other Restaurant then-operating under the System.
s. Modification of the agreement	§ 21	Must be in writing signed by both parties.

Provision	Section in Franchise Agreement	Summary
t. Integration/merger clause	§ 21	Only the final written terms of the Franchise Agreement and Area Development Agreement are binding (subject to state law), but this provision will not act, or be interpreted, as a disclaimer of any representations made in this disclosure document. Any representations or promises made outside of the disclosure document, Franchise Agreement and Area Development Agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	§ 23.3	Before bringing an action in court, the parties must first submit the dispute to non-binding mediation (except for injunctive relief). (See Note 2)
v. Choice of forum	§ 23.2	You must litigate in the state and judicial district where we maintain our principal place of business (subject to applicable state law). (See Notes 3 and 4)
w. Choice of law	§ 23.1	Maryland (subject to applicable state law). (See Note 2,3, and 4)

Provision	Section in Area Development Agreement	Summary
a. Length of the franchise term	§ 4.1	The end of the Development Schedule
b. Renewal or extension of the term	Not Applicable, but see § 4.2	Option Period, for 2 years. You can establish additional Restaurants if we grant you a right of first offer.
c. Requirements for you to renew or extend	Not Applicable	
d. Termination by you	Not Applicable	
e. Termination by us without cause	Not Applicable	
f. Termination by us with cause	§ 6	Bankruptcy, insolvency, and other grounds; and failure to meet Development Schedule. Under the U.S. Bankruptcy Code, we may be unable to terminate the agreement merely because you make a bankruptcy filing. (See Notes 1 and 3)

Provision	Section in Area Development Agreement	Summary
g. “Cause” defined – curable defaults	§ 6.3	Defaults not specified in §§ 6.1 or 6.2, such as a material failure to comply with other agreement terms.
h. “Cause” defined - non-curable defaults	§§ 6.1 and 6.2	Bankruptcy, insolvency, and others; failure to meet Development Schedule; termination of a Franchise Agreement. (Under the U.S. Bankruptcy Code, we may be unable to terminate the agreement merely because you make a bankruptcy filing.)
i. Your obligations on termination/ nonrenewal	§ 6.5	Cease operating developing new Restaurants; and payment of amounts due, and others; see also § 6.4 (actions in lieu of termination).
j. Assignment of contract by us	§ 7.1	There are no limits on our right to assign the Area Development Agreement.
k. “Transfer” by you – defined	§§ 7.3.1 – 7.3.4	Includes transfer of any interest.
l. Our approval of transfer by you	§§ 7.3 and 7.4	We have the right to approve transfers.
m. Conditions for our approval of transfer	§ 7.4	Release us (see Exhibit L), signature of new Area Development Agreement, payment of transfer fee, and others; see §§ 7.4.1 - 7.4.10 of the Area Development Agreement.
n. Our right of first refusal to acquire your business	§ 7.5	We have a right of first option. If you or one of your Principals plans to sell or transfer any material asset of the business or any material part (which changes control) of the entity which owns the business to a third party, you and/or the Principal must first offer the assets or interest to us under the same terms and conditions. If we do not wish to acquire the assets or interest, you and/or the Principal may then transfer them to the third party.
o. Our option to purchase your business	Not Applicable	See “n” above, and § 7.5.
p. Your death or disability	§§ 7.6, 7.7 and 7.8	Your estate must transfer your interest in the business to a third party we have approved, within a year after death or six months after the onset of disability.

Provision	Section in Area Development Agreement	Summary
q. Non-competition covenants during the term of the franchise	§ 8.2	Includes prohibition on engaging in any business which is the same or similar to the Restaurants that will be developed; see § 8.2 of the Franchise Agreement.
r. Non-competition covenants after the franchise is terminated or expires	§ 8.3	Includes a two year prohibition similar to "q" (above), at the Designated Location, within the Development Area, within five miles of the Development Area or any other Restaurant then-operating under the System.
s. Modification of the agreement	§ 13	Must be in writing signed by both parties.
t. Integration/merger clause	§13	Only the final written terms of the Franchise Agreement and Area Development Agreement are binding (subject to state law), but this provision will not act, or be interpreted, as a disclaimer of any representations made in this disclosure document. Any representations or promises made outside of the disclosure document, Franchise Agreement and Area Development Agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	§ 15.3	Before bringing an action in court, the parties must first submit the dispute to non-binding mediation (except for injunctive relief). (See Note 2)
v. Choice of forum	§ 15.2	You must litigate in the state and judicial district where we maintain our principal place of business (subject to applicable state law). (See Notes 3 and 4)
w. Choice of law	§ 15.1	Maryland (subject to applicable state law). (See Notes 2, 3 and 4)

Notes:

1. Some states have statutes and/or court decisions which may supersede the Franchise Agreement in your relationship with us, including the areas of termination and renewal of your franchise.

2. In addition to the provisions noted in the chart above, the Franchise Agreement and Development Agreement contain a number of provisions that may affect your legal rights, including a waiver of a jury trial, waiver of punitive or exemplary damages, and limitations on when claims may be raised. See Section 23 of the Franchise Agreement (as amended by applicable state law), and Section 15 of the Development Agreement (as amended by applicable state law). We recommend that you carefully review all of these provisions, and the entire contracts, with a lawyer.

3. If a state law requires any modification to these provisions of the Franchise Agreement (or other provisions described in this Item 17) or requires additional terms, those modifications will be found in the disclosure addenda and contractual amendments appended to this disclosure document.

4. If any of the provisions in the Franchise Agreement or Development Agreement, including those summarized above, are inconsistent with, or contrary to, applicable state law, the requirements of the applicable law or laws will be substituted for the inconsistent or contrary provisions in the agreements.

ITEM 18
PUBLIC FIGURES

We do not use any public figures to promote our franchise.

ITEM 19
FINANCIAL PERFORMANCE REPRESENTATIONS

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

Presented below are certain gross revenue data for franchised, affiliate-owned, and non-franchise licensee California Tortilla restaurants, and certain gross revenue, net sales and cost data for the four California Tortilla Restaurants that are owned and/or operated by our affiliates. Please carefully read all of the information in this Item 19, and all of the notes following the charts, in conjunction with your review of the historical data.

A. Gross Revenue for Franchisees

Presented below are the gross revenue figures for the 27 Franchised California Tortilla Restaurants that have been operating for at least 12 months, as of December 31, 2021.

Chart 19-A

2021 Gross Revenue	
Number of Restaurants (open at least 12 months)	27
Average Annual Gross Revenue	$873,255
Number of Restaurants Greater Than Average	11 / 40.7 %
Median Annual Gross Revenue	$686,113
Highest Annual Gross Revenue	$2,046,807
Lowest Annual Gross Revenue	$534,384

<u>Notes</u>:

"**Gross Revenue**" – This represents the total gross revenue for each Restaurant in the sample for the period January 1, 2021 to December 31, 2021, as reported by the franchisees or operators to us. Included in gross revenue are all revenues from the sale of goods to customers of the Restaurant, including the full range of required California Tortilla menu items, at all day-parts, as well as all other products, merchandise and food items, for on-premises consumption, take-out, and catering. Gross Revenues include all revenue before deductions for discounts, coupon sales, and employee meals. But Gross Revenue does not include sales tax collected for transmittal to government agencies.

"**Average Annual Gross Revenue**" is the total Gross Revenue for the 27 Restaurants in the sample, divided by 27.

"**Median Annual Gross Revenue**" is the Annual Gross Revenue figure for the Restaurant in the middle of the range, for which 13 Restaurants had Gross Revenue greater than this figure, and 113 Restaurants had less than the figure.

The gross revenue figures are compiled by using sales that are reported to us by franchisees and operators, or that we obtain from reports from the Restaurants' POS or Computer System. We do not regularly audit or verify the reports or the data obtained.

To avoid skewing of data due to seasonality, revenues that may be generated from grand opening advertising or promotion, effects (positive or negative) from start-up operations or mid-year changes, or other variations, the data in Chart 19-A are for the franchised Restaurants that were in business for at least 12 months as of December 31, 2021 (that is, they started operating as a California Tortilla Restaurant prior to January 1, 2021). Due to Covid-related government restrictions or regulations, which varied by state and locality, and changed during the year, none of the Restaurants were able to remain open for all of 2021. However, Restaurant closures were varied. The data in the Chart 19-A represents Restaurants that were operated for at least 12 months during all of 2021 and were operated 7 days per week. Also, of the franchised Restaurants that were not part of the sample in Chart 19-A, one closed during the 2021 calendar year, and 10 closed for more than one month in 2021 due to Covid restrictions. A Restaurant was considered "opened" or was "operating" if it was not closed and did not report sales for more than 30 consecutive days.

The data above does not reflect the costs of sales, costs of goods, operating expenses or other costs or expenses that must be deducted from gross revenue or gross sales to obtain a net income or net profit figure. Franchisees are not required to report this data to us, and we do not have these operating costs for franchisees.

You should conduct an independent investigation of the costs and expenses you will or may incur in operating your franchised California Tortilla Restaurant. Franchisees or former franchisees listed in this disclosure document may be one source of this information. While Part B of this Item 19 includes certain cost data for four affiliate-owned California Tortilla Restaurants, and the notes in Part B below describe generally the types of costs and expenses that you will or may incur, you should not rely on or utilize those cost figures as estimates for your operating costs. Franchised California Tortilla Restaurants operate under the same System and with similar operating procedures and requirements, as that under which the California Tortilla Restaurants described below operate. However, as noted in Note 2 below, a franchised California Tortilla Restaurant will incur certain types of franchise-specific expenses (for example, royalty payments) that the other restaurants did not have.

B. <u>Net Sales and Selected Cost/Expense Data for Affiliate-Owned Restaurants</u>

Presented below is a chart with certain operating results from four California Tortilla Restaurants owned and operated by our affiliates CT Potomac and CalTort. Chart 19-B reflects the gross revenue, net sales, costs of goods sold, and certain other operating costs and expenses of four California Tortilla Restaurants operated by our affiliates during all of 2021. The chart also includes an average of each line item, or category, for the four Restaurants in the sample. Please read carefully all of the information in this Item 19, and all of the notes following the data, in conjunction with your review of the historical data.

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Chart 19-B

Profit and Loss Statement for Affiliate-Owned Restaurants

	Potomac, MD		Olney, MD		Quince Orchard, MD		Bethesda, MD		Average	
Gross Revenue (Gross sales less sales tax)	$ 1,811,200		$ 1,448,197		$ 792,248		$ 1,255,299		$ 1,326,736	
Discounts (coupons, loyalty program, employee meals)	$ 27,277		$ 26,972		$ 12,909		$ 13,738		$ 20,224	
Net Sales (Gross sales less sales tax and discounts)	$ 1,783,923	100.0%	$ 1,421,225	100.0%	$ 779,339	100.0%	$ 1,241,561	100.0%	$ 1,306,512	100.0%
Cost of Goods Sold (food, beverages, and paper costs)	$ 578,684	32.4%	$ 456,680	32.1%	$ 249,908	32.1%	$ 396,314	31.9%	$ 420,397	32.2%
Hourly Payroll	$ 309,407	17.3%	$ 268,352	18.9%	$ 184,246	23.6%	$ 234,009	18.8%	$ 249,004	19.1%
Management Payroll	$ 127,832	7.2%	$ 89,5 25	6.3%	$ 44,205	5.7%	$ 94,899	7.6%	$ 89,115	6.8%
Payroll Taxes	$ 35,922	2.0%	$ 30,624	2.2%	$ 17,401	2.2%	$ 24,406	2.0%	$ 27,088	2.1%
Advertising (CT Creative fund contributions and local store advertising)	$ 47,855	2.7%	$ 36,815	2.6%	$ 18,141	2.3%	$ 31,955	2.6%	$ 33,692	2.6%
Utilities (gas, electric, and water)	$ 44,401	2.5%	$ 44,535	3.1%	$ 31,639	4.1%	$ 37,196	3.0%	$ 39,443	3.0%
Operating Expense (Restaurant supplies, repairs and maintenance, and other controllable expenses)	$ 159,601	8.9%	$ 130,050	9.2%	$ 88,606	11.4%	$ 172,416	13.9%	$ 137,668	10.5%
Occupancy Expense (Rent and CAM payments)	$ 180,173	10.1%	$ 161,644	11.4%	$ 106,820	13.7%	$ 143,798	11.6%	$ 148,109	11.3%
General & Administrative Expense (credit card fees, insurance, legal and accounting fees, and other general & administrative expenses)	$ 66,200	3.7%	$ 46,928	3.3%	$ 27,230	3.5%	$ 41,618	3.4%	$ 45,494	3.5%
Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)	$ 233,848	13.1%	$ 156,072	11.0%	$ 11,143	1.4%	$ 64,950	5.2%	$ 116,503	8.9%
Imputed Royalty (5%)	$ 89,196		$ 71,061		$ 38,967		$ 62,078		$ 65,326	

Notes:

1. Chart 19-B above represents the gross revenue, net sales and certain operating costs from four California Tortilla Restaurants that are owned and operated by our affiliates. The oldest of the four Restaurants was opened in, and has been operated since, April 2002, and the newest Restaurant was opened in August 2008. We have included data only for Restaurants that have been open for at least one full year as of December 31, 2021. The Restaurants are located in Potomac, Maryland (operating continuously since 2002, Olney, Maryland (operating continuously since October 2003), Quince Orchard, Maryland (operating continuously from August 2008 as a franchisee-owned Restaurant, and operating since June 2012 as an affiliate-owned Restaurant), and Bethesda, Maryland (operating continuously from October 2012 until February 2019 as a related party owned Restaurant, and operating since February 2019 as an affiliate-owned Restaurant). The four Restaurants included in the above figures range in size from 2200 to 2800 square feet (including kitchen, serving area and dining area). Three of the Restaurants are located in strip malls. The fourth Is in an urban street location. All four Restaurants are open seven days per week, and each Restaurant is open, on average, approximately 70 hours per week. All four Restaurants are open for lunch and dinner. The Olney Restaurant is also used as a training location. Therefore, due to increased staff, training classes on food preparation, and other reasons, certain costs may be greater in Olney than for a similar Restaurant. (For example, food costs may be higher due to more "waste" from training classes, or for employee/trainee meals.)

2. The "**Gross Revenue**" includes all revenues from the sale of goods to customers of the Restaurant, including the full range of required California Tortilla menu items, at all day-parts, as well as all other products, merchandise and food items, for on-premises, take-out, and catering. Gross Revenue also includes revenue before deductions for discounts, coupon sales, and employee meals. It does not include sales taxes collected for payment to the appropriate government agencies.

3. The "**Net Sales**" include Gross Revenues, less all sales taxes, discounted food sales, coupons, etc. This is the figure that is referred to as "Net Sales" in the Franchise Agreement, and upon which the franchisees based their royalty payments.

4. The "**Cost of Goods**" in the chart includes the cost of food, beverages and paper products (but excludes hot sauces). Food costs may vary from year to year, or within a year, due to fluctuations in the wholesale prices of ingredients and/or other menu items. For example, fluctuations in the price of chicken, beef, cheese, and avocado can significantly impact the food costs. As noted above, Olney is a training location, so it may experience higher food costs.

5. The "**Hourly Payroll**" includes the total wages (including taxes and benefits) for all hourly staff of each Restaurant. The "Hourly Payroll" figures do not include salary, wages, or benefits for the general manager or the assistant managers. The Olney Restaurant is used as a training Restaurant, and the Restaurant utilized additional staff to assist with training. The additional labor costs incurred due to Olney being a training facility are included in the figures for hourly payroll. Benefits for the employees whose pay is included in the "Hourly Payroll" include vacation pay. Your benefits package to employees may include some, all, or none of the expenses incurred by these Restaurants. You, as a franchisee, will have the sole discretion to determine the number of employees and managers you will hire, and their hours, compensation and benefits.

6. "**Management Payroll**" includes the salary, wages and benefits for the general manager and assistant general managers at each Restaurant. Each Restaurant compensates its managers differently and may use varied formulas. Three of the Restaurants noted in Chart 19-B employ one full-time general manager and two assistant managers. One of the Restaurants employs just one full-time general manager.

7. The total amount of salaries for your employees and managers at a particular location will vary according to local wages, the number of employees, and the number of hours that the Restaurant is open for business. You must make labor, wage, and benefit determinations based on your market, experience, and other factors. You may set and pay compensation (and any benefits) at any level you determine. The figures in the chart do not include any compensation to a franchisee or owner. But, as a franchisee, you may decide to compensate one or more of your owners in lieu of one or more managers.

8. "**Payroll Taxes**" include the amounts paid to local, state and federal governments for FICA, and federal and state unemployment insurance, based on the wages paid to employees. These amounts are set by governmental authorities, and will vary from state to state.

9. "**Operating Expenses**" includes supplies, telephone, repairs, maintenance, commissions for third party delivery service providers, computer/POS system expenses, hot sauces, and other controllable expenses. Included in Operating Expenses for 2021 were items that reflected historical increases in 2021 over prior years, due to Covid-related restrictions, requirements or operations, such as increased third party delivery operations and related fees, and increased costs for certain supplies due to shortages (e.g., gloves), or new costs (e.g., personal protection equipment).

10. In light of certain interrelated and/or shared activities and/or expenses of operating the affiliate-owned Restaurants, certain costs or expenses are accounted for differently at one or more Restaurants, and/or certain expenses are allocated to one or more Restaurants. Certain of these expenses are not typical, and are not expected to be incurred by single-unit, franchised operators. The figures in the chart reflect the following adjustments:

(a) Management Fees: One of the affiliate-owned locations (Potomac) pays management fees to an affiliated company. These fees are not included in the General & Administrative Expense (for Potomac). A franchisee is not expected to pay or incur similar fees or expenses in the operation of its Restaurant.

(b) License Fees: Third-party license fees are not included in the General & Administrative Expense for Potomac.

(c) Allocated "Area Leader" Labor Expenses: Due to the multiple-unit operations, the Restaurants share the services of an "area leader" or multiple-unit manager, provided by an affiliated company. The cost for this labor, along with the monthly management charge, is borne by these Restaurants. The chart above does not include the allocated area leader charges. Under the Area Development Agreement, a franchisee/developer that has three or more Restaurants may be required to hire an area leader.

(d) Office Rent: A portion of the affiliated companies' office rent is allocated to the four Restaurants. The chart above does not include this expense item. A franchisee, particularly one with multiple Restaurants, may decide to have a separate office, but it is not required.

As noted below, substantiation of the data in this Item 19 is available from us upon reasonable request. This includes the data for the expenses that are included and/or excluded from the expenses and revenue data for the four Restaurants.

11. "**Average**": This is the last column in the chart. For each line item in the chart, the figures are aggregated, and then divided by the sample size. For example, the individual Restaurants have Net Sales of $1,783,923, $1,421,225, $779,339 and $1,241,561, respectively. The aggregate (or total) Net Sales

was $5,226,042. This amount was divided by 4, and the result is an average Net Sales of $1,306,512 per Restaurant.

12. Percentage: Each line item in the chart includes an absolute dollar figure (e.g., $578,684 for Costs of Goods Sold), and a percentage figure. The percentage is a ratio of that particular cost as a percentage of Net Sales. The figure is derived by taking the dollar volume (e.g., $587,684) divided by the total Net Sales (e.g., $1,783,923). For example, for Costs of Goods Sold at the Potomac Restaurant, the percentage is:

$$\frac{\text{Cost of food, beverages and paper products}}{\text{Net Sales}} = \frac{\$578,684}{\$1,783,923} = 32.4\%$$

13. The Cost of Goods Sold, and/or the payroll expenses, and/or any of the other expenses of the type in the chart reflect only those expenses incurred by these four affiliate-owned Restaurants, and not any franchised Restaurant. Your revenue and costs may differ from the results in the chart, and could be higher or lower.

14. "**Imputed Royalty**" is the amount of royalty that would have been paid in 2021, based on the standard 5% royalty rate, for the Net Sales of each particular Restaurant in Chart 19-B. This statement is required by applicable franchise regulations, but it is not a statement that you or any franchisee is expected to achieve the same level of sales. It is intended only as a statement that if a Restaurant were to achieve the level of Net Sales that was achieved by each of these Restaurants, this is the amount of the royalty fee that would be owed to us.

15. You will be required to pay royalty fees, which are 5% of Net Sales. Royalty fees are not paid by affiliate-owned Restaurants.

16. Franchisees are required to pay CT Creative Fund contributions, local advertising expenditures (including a Minimum Local Advertising Expenditure), and Market Cooperative contributions, if a Market Cooperative is formed for the region in which your Restaurant is located. Currently, the CT Creative Fund contribution is 2% of Net Sales, and the Minimum Local Advertising Expenditure is $10,000 per year. The Restaurants in the chart above contribute to the CT Creative Fund in the same percentages as a franchisee, and these amounts are reflected in the "Advertising" line. In addition, the Restaurants in the chart had advertising expenses greater than the minimum franchisee obligations (as a percentage of Net Sales).

17. A franchisee will incur other expenses of doing business, and these are likely to vary among franchisees. Among the categories of expenses which franchisees may incur (many of which are included in the chart above) include, but will not necessarily be limited to, the following: rent, utilities, and occupancy costs; franchisee compensation over and above that earned from the operations of the Restaurant business (such as a salary that a franchisee may pay to himself/herself); voluntary employee benefits, such as health, vacation, and pension plan contributions; debt service; insurance; restaurant facilities and property maintenance (and reserve for future maintenance); business and regulatory fees and licenses; ongoing and supplemental training expenses; recruitment expenses; and bookkeeping and other professional services. Your individual financial results, including your costs and expenses may differ from the results stated in this Item 19.

18. The information in Chart 19-B reflects the Gross Revenue, Net Sales and certain costs and expenses of four individual affiliate-owned California Tortilla Restaurants, and not any franchised Restaurant. Actual results vary from franchisee to franchisee.

*   *   *

- You are strongly advised to perform an independent investigation of this opportunity to determine whether or not the franchise may be profitable and to consult your attorney, accountant, and other professional advisors before entering into a Franchise Agreement. You should construct your own pro forma cash flow statement, balance sheet, and statement of operations, and make your own financial projections regarding sales, revenues, costs, customer base, and business development for your own California Tortilla Restaurant.

- We cannot estimate or predict the results that you may experience as a franchisee. Your results will be affected by factors such as prevailing economic or market area conditions, demographics, geographic location, interest rates, your capitalization level, the amount and terms of any financing that you may secure, the property values and lease rates, your business and management skills, staff strengths and weaknesses, and the cost and effectiveness of your marketing activities.

- The operating data in the charts were prepared from internal operating records provided to us by the owners/operators of the Restaurants. We assume, but did not verify, that the records were prepared in accordance with generally accepted accounting principles. The information presented in this Item 19 has not been audited.

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

- Other than the preceding financial performance representations in this Item 19, we do not make any financial performance representations. We do not authorize our employees or representatives to make any 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 our management by contacting Mr. Robert Phillips, President, California Tortilla Group, Inc., 7825 Tuckerman Lane, Suite 214, Potomac, Maryland, or 301-545-0035, the Federal Trade Commission, and the appropriate state regulatory agencies.

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

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ITEM 20
OUTLETS AND FRANCHISEE INFORMATION

Table 1

Systemwide Outlet Summary
For years 2019-2021 [1]

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2019	37	34	-3
	2020	34	35	+1
	2021	35	34	-1
Company-Owned [2]	2019	4	4	0
	2020	4	4	0
	2021	4	4	0
Total Outlets [3]	**2019**	**41**	**38**	**-3**
	2020	**38**	**39**	**+1**
	2021	**39**	**38**	**-1**

Table 2

Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For years 2019 to 2021

State	Year	Number of Transfers
District of Columbia	2019	1
	2020	1
	2021	0
Kansas	2019	0
	2020	0
	2021	1
Maryland	2019	5*
	2020	2
	2021	0

State	Year	Number of Transfers
New Jersey	2019	1
	2020	1
	2021	0
Pennsylvania	2019	0
	2020	1
	2021	0
Virginia	2019	2*
	2020	4
	2021	0
Total [3]	**2019**	**9**
	2020	**9**
	2021	**1**

* In addition to these transfers, there was one franchisee entity with one Restaurant in Maryland and four Restaurants in Virginia in which there was a change in the majority owner of the entity in 2019, but the entity continued to operate as a franchisee in all five locations. See Exhibits E and F.

Table 3

Status of Franchised Outlets
For years 2019 to 2021

State	Year	Outlets at Start of Year	Outlets Opened	Termi-nations	Non-Renewals	Reacquired by Franchisor	Ceased Operations Other Reasons	Outlets at End of the Year
Connecticut	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Delaware	2019	1	0	0	0	0	1	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
District of Columbia	2019	5	0	0	0	0	0	5
	2020	5	0	0	0	0	1	4
	2021	4	0	0	0	0	0	4

State	Year	Outlets at Start of Year	Outlets Opened	Termi-nations	Non-Renewals	Reacquired by Franchisor	Ceased Operations Other Reasons	Outlets at End of the Year
Kansas	2019	0	0	0	0	0	0	0
	2020	0	1	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Maryland	2019	8	0	0	0	0	1	7
	2020	7	0	0	0	0	0	7
	2021	7	0	0	0	0	0	7
New Jersey	2019	3	0	0	0	0	0	3
	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
Pennsyl-vania[4]	2019	8	0	0	0	0	0	8
	2020	8	0	0	0	0	0	8
	2021	8	0	0	0	0	1	7
South Carolina	2019	0	0	0	0	0	0	0
	2020	0	1	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Tennessee	2019	0	1	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	1	0
Virginia	2019	10	0	0	0	0	2	8
	2020	8	1	0	0	0	1	8
	2021	8	1	0	0	0	0	9
West Virginia	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Totals [3]	**2019**	**37**	**1**	**0**	**0**	**0**	**4**	**34**
	2020	**34**	**3**	**0**	**0**	**0**	**2**	**35**
	2021	**35**	**1**	**0**	**0**	**0**	**2**	**34**

Table 4

Status of Company-Owned Outlets [2]
For years 2019 to 2021

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
Maryland	2019	4	0	1	0	1	4
	2020	4	0	0	0	0	4
	2021	4	0	0	0	0	4
Totals [3]	**2019**	**4**	**0**	**1**	**0**	**1**	**4**
	2020	**4**	**0**	**0**	**0**	**0**	**4**
	2021	**4**	**0**	**0**	**0**	**0**	**4**

Projected Openings As of December 31, 2021 for 2022

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlet In The Next Fiscal Year	Projected New Company-Owned Outlet In The Next Year
Georgia	5	1	0
Maryland	1	2	0
New Jersey	2	1	0
Pennsylvania	2	1	0
Virginia	4	1	0
Total [3]	**14**	**6**	**0**

<u>Notes for all Charts in Item 20</u>

1. All numbers are as of the fiscal year-end. Each fiscal year ends on December 31.

2. As described in Item 1, we do not have any company-owned Restaurants. For purposes of identifying operating California Tortilla Restaurants, we have included the Restaurant owned and operated by CT Bethesda, an affiliate of Yeeha!, as a "franchisee" outlet, in 2018. Our affiliate CalTort acquired that restaurant in February 2019, and it has been treated as "a company-owned" Restaurant for 2019, along with the other CalTort-owned Restaurants. We have included the Restaurants owned by CT-Potomac,

and by our affiliate CalTort, as "company-owned." The locations of the non-affiliated restaurant, owned by CT Bethesda, as well as the names of the owners, are listed in Exhibit E. Future "company-owned" Restaurants are expected to be owned and operated by our affiliate, CalTort. The location of the Restaurants owned by CalTort and CT-Potomac are listed in Exhibit G.

3. States not listed in a chart had no franchised, company-owned or affiliate-owned Restaurants or activity during the relevant period.

4. As described in Item 1, two franchises were granted for Restaurants that operate under the name "Burrito Elito." They are at airports in Massachusetts and Pennsylvania.

Other Notes

- The names, addresses, and telephone numbers of our franchisees and other operators/owners of Restaurants are listed in Exhibit E. (Affiliate-owned Restaurants are identified on Exhibit G.). Any former franchisees, including any who had an agreement terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under a Franchise Agreement during our last fiscal year, or have not communicated with us within ten weeks of the date of this disclosure document are identified on Exhibit F.

- Area Developers: The names, addresses, and telephone numbers of our area developers are listed in Exhibit H. No Area Development Agreement has been terminated, canceled, or not renewed, and no area developers voluntarily or involuntarily ceased to do business under an Area Development Agreement during our last fiscal year. Any former area developers who were terminated or left the system in the past year or became former area developers following completion of their development schedules are identified on Exhibit I.

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

- No franchisees have signed a confidentiality clause in a franchise agreement, settlement, or other contract within the last three years that would restrict their ability to speak openly about their experience with California Tortilla.

- As of the date of this disclosure document and as discussed in Item 11, we have one Franchisee Advisory Council comprised of four franchisees who are elected by the franchisees and us (on a 1 store to 1 vote basis). The Franchisee Advisory Council does not have a formal office and it meets at our headquarters. Please contact us if you want the names of the current members. We are not aware of any franchisee association regardless of whether they use our marks.

ITEM 21
FINANCIAL STATEMENTS

The following financial statements of California Tortilla Group, Inc. are attached to this disclosure document as Exhibit J:

1. Our fiscal year end is December 31. The audited financial statements (including balance sheets as of December 31, 2021 and December 31, 2020), and statements of income, retained earnings, and cash flows, for the fiscal years ended December 31, 2021, December 31, 2020, and December 31, 2019.

ITEM 22
CONTRACTS

The following contracts are attached to this disclosure document:

Franchise Agreement (Exhibit A).
Area Development Agreement (Exhibit B).
Release Agreement (Exhibit N).
Multiple Unit Addendum to the California Tortilla Franchise Agreement (Exhibit O)
Renewal Addendum (Exhibit P).

ITEM 23
RECEIPTS

The last two pages of this disclosure document (Exhibit R) are identical pages acknowledging receipt of this entire document (including the exhibits). Please sign and return to us one copy; please keep the other copy along with this disclosure document.

EXHIBIT A
FRANCHISE AGREEMENT

CALIFORNIA TORTILLA

FRANCHISE AGREEMENT

____
Franchisee Name

____
Market Area

____
Date of Agreement

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Exhibits:

A Designated Location and Territory
B Site Selection Addendum
C Guarantee, Indemnification and Acknowledgment
D List of Principals
E EFT Authorization Form
F ADA Certification
G Lease Rider
H Non-Disclosure and Non-Competition Agreement

CALIFORNIA TORTILLA
FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT (the “**Agreement**”) is made and entered into on this ______ day of __________________, 20__ (the “**Effective Date**”), by and between:

- California Tortilla Group, Inc., a Maryland corporation whose principal place of business is 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854 (“**Franchisor**”); and
- a [resident of] [corporation organized in] [limited liability company organized in] ____________________ ______________ and having offices at ____ (“**Franchisee**”).

BACKGROUND:

A. Franchisor owns a format and system (the “**System**”) relating to the establishment and operation of quick service fast casual restaurant businesses that bear Franchisor’s interior and exterior trade dress, under the “California Tortilla” and “California Tortilla Company” name and marks, which specialize in the sale of burritos, tacos, quesadillas, salads, and other California-Mexican style foods, and such additional or alternate products as Franchisor may designate from time to time for on-premises and carry-out consumption (the “**California Tortilla Restaurants**”);

B. The distinguishing characteristics of the System include, without limitation, a specially-designed building or facility for restaurant operations, with specially developed equipment, equipment layouts, and signage; distinctive interior and exterior design, trade dress and accessories, including, without limitation, the display of “hot” sauces and other products in a manner prescribed by Franchisor; specialized products, and procedures for operations; quality and uniformity of products and services offered; procedures for management and inventory control; training and assistance; and advertising and promotional programs; all of which may be changed, improved, and further developed by Franchisor from time to time;

C. Franchisor identifies the System by means of certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including but not limited to the mark “California Tortilla” and “California Tortilla and design” and such other trade names, service marks, and trademarks as are now designated (and may hereinafter be designated by Franchisor in writing) for use in connection with the System (the “**Proprietary Marks**”);

D. Franchisor continues to develop, use, and control the use of such Proprietary Marks in order to identify for the public the source of services and products marketed thereunder and under the System, and to represent the System’s high standards of quality, appearance, and service;

E. Franchisee desires to enter into the business of operating a California Tortilla Restaurant under the System, wishes to utilize the Proprietary Marks and wishes to obtain a franchise from Franchisor for that purpose, as well as to receive the training and other assistance provided by Franchisor in connection therewith; and

F. Franchisee understands and acknowledges the importance of Franchisor’s high standards of quality, cleanliness, appearance, and service and the necessity of operating the business franchised hereunder in conformity with Franchisor’s standards and specifications.

NOW, THEREFORE, the parties, in consideration of the undertakings and commitments of each party to the other party set forth herein, hereby agree as follows:

1. GRANT

1.1 Grant of Rights. Upon the terms and conditions set forth in this Agreement, Franchisor hereby grants to Franchisee the right and franchise, and Franchisee accepts and undertakes the obligation, to: (a) operate one (1) California Tortilla Restaurant under the System (the "**Restaurant**"); (b) to use, only in connection with the Restaurant, the Proprietary Marks and the System, as they may be changed, improved, or further developed from time to time by Franchisor; and (c) and to do so only at the location specified in Exhibit A (the "**Designated Location**"). If, at the time of execution of this Agreement, a location for the Restaurant has not been obtained by Franchisee and approved by Franchisor, Franchisee shall lease, sublease, or acquire a site for the Restaurant, subject to Franchisor's written consent in accordance with the Site Selection Addendum attached as Exhibit B (the "**Site Selection Addendum**"). Franchisee shall not relocate the Restaurant without Franchisor's prior written consent. Franchisor shall have the right to grant or withhold consent of the Designated Location under this Section 1.1. In connection with Franchisor's consent to the Designated Location, Franchisee shall execute, and cause the landlord to execute, the Lease Rider appended hereto as Exhibit G. Franchisee acknowledges and agrees that Franchisor's consent to Franchisee's proposed location, under this Section 1.1 or pursuant to the Site Selection Addendum, does not constitute any assurance, representation, or warranty of Franchisor of any kind, as further described in Paragraph 6 of the Site Selection Addendum.

1.2 Territory. During the term of this Agreement, and provided that Franchisee is in compliance with the terms and conditions of this Agreement, Franchisor shall not establish, nor license any other person to establish, another California Tortilla Restaurant at any location within the geographic area (the "**Territory**") defined in Exhibit A, except as otherwise provided in this Agreement. Franchisor retains all other rights, and may, among other things, on any terms and conditions Franchisor deems advisable, and without granting Franchisee any rights therein:

1.2.1 establish, and license others to establish, California Tortilla Restaurants at any location outside the Territory, notwithstanding their proximity to the Territory or the Designated Location or their actual or threatened impact on sales at Franchisee's Restaurant;

1.2.2 establish, and license others to establish, California Tortilla Restaurants at any institutional or captive audience facilities, including, without limitation, military bases, airports and other public transportation facilities, government offices or institutions, educational institutions, health care facilities, toll road or highway rest stops, parks, stadiums, museums, art centers, contract or institutional food service operators, in theaters, warehouse clubs, theme parks, amusement centers, truck stops, or casinos ("**Institutional Facilities**") within or outside the Territory, notwithstanding such California Tortilla Restaurants' proximity to the Designated Location or their actual or threatened impact on sales at Franchisee's Restaurant;

1.2.3 establish, acquire or operate, or license others to establish and operate, restaurants or stores under other systems or other proprietary marks, which restaurants or stores may offer or sell products or services that are different from the products and services offered from the Restaurant, and which restaurants or stores may be located within or outside the Territory, notwithstanding such stores' proximity to the Designated Location or their actual or threatened impact on sales at Franchisee's Restaurant;

1.2.4 in the event Franchisor or its affiliates acquire another chain or system, or Franchisor or its affiliates are acquired by another chain or system, that operates and/or franchises restaurants or stores that are the same or similar to California Tortilla Restaurants in that they have a substantially similar menu or similar theme or concept, Franchisor or its affiliates may establish, acquire or operate, or license others to establish and operate, restaurants or stores under other systems or other marks, which restaurants or stores may offer or sell products or services that are the same as, or similar to, the products and services offered from the Restaurant, and which restaurants or stores may be located within or outside the Territory, despite these restaurants' or stores' proximity to the Designated Location or their actual or threatened impact on sales at Franchisee's Restaurant;

1.2.5 sell and distribute, directly or indirectly, or license others to sell and distribute, directly or indirectly, any products, services or merchandise, from any location or to any purchaser (including, but not limited, to sales made at retail locations, supermarkets, gourmet shops, mail order, and on the Internet), so long as such sales are not conducted from a California Tortilla Restaurant operated from a location inside the Territory (excluding an Institutional Facility); and

1.2.6 conduct catering sales, and/or permit affiliates, licensees and/or other franchisees to conduct catering sales, to customers located in Franchisee's Territory if Franchisee is not certified or qualified by Franchisor under Franchisor's then-current rules, policies and conditions to conduct catering.

1.3 Advertising and Promotional Materials. Franchisor and Franchisee acknowledge that advertising and promotional materials created, placed, and/or distributed by Franchisor, other franchisees operating under the System, or other entities authorized by Franchisor, may appear in media distributed in, or may be directed to prospective customers located within, the Territory, including on Franchisor's website or any related website.

1.4 Sale of Products and Services; Catering; Delivery. Unless otherwise permitted by Franchisor, Franchisee shall offer and sell only products and services previously authorized by Franchisor, and only from the Restaurant, only in accordance with the requirements of this Agreement and the procedures set forth in the Manuals, and only to retail customers for consumption on the Restaurant's premises or for personal, carry-out consumption. In addition, and without limiting the foregoing:

1.4.1 Franchisee may conduct catering from the Restaurant only if Franchisee obtains Franchisor's approval and satisfies Franchisor's operating standards for catering. Such approval shall apply prospectively for all catering operations from the Restaurant, and Franchisee need not seek approval on a job-by-job basis; provided, however, that Franchisor shall have the right to revoke or modify its approval if Franchisee fails to satisfy Franchisor's standards, which may be modified from time to time.

1.4.2 Franchisee shall not conduct, engage in, subcontract to third parties, utilize on-line or internet based delivery scheduling companies or applications, or authorize or permit any person, entity, third party, or technology to engage in, delivery operations at or from the Restaurant, unless such delivery operations or program has been expressly approved, in writing, by Franchisor. Franchisor may grant or not grant such approval in Franchisor's sole discretion. Franchisor may condition its approval on, among other things, (a) Franchisee's strict compliance with this Agreement and the standards and specifications for Restaurant operations set forth in the Manual; and/or (b) Franchisee's strict compliance with any delivery rules, procedures, requirements or standards that Franchisor may establish, such as, obtaining and maintaining additional and specialized insurance, and purchasing (or leasing) and using new or additional equipment and software for ordering, tracking, and reporting on deliveries, implementing a new or modified point of sale system(s), and utilizing required packaging; and/or (c) Franchisee's utilization of Franchisor-designated or approved third-party ordering, delivery and/or billing services and/or software; and/or (d) Franchisee's strict compliance with Franchisor's standards and requirements for billing, collections and reporting of such services.

1.4.3 Franchisee shall not offer or sell products or services authorized under this Agreement through any other means, including without limitation, through satellite locations, temporary locations, carts or kiosks, the Internet, or through any electronic media, without the prior written approval of Franchisor, and only in accordance with Franchisor's policies as they may be developed and/or modified from time to time.

2. TERM AND RENEWAL

2.1 Term. Except as otherwise provided herein and unless sooner terminated in accordance with the provisions hereof, the initial term of this Agreement shall be the lesser of (a) ten (10) years from the opening date of the Restaurant or (b) the term of the lease for the Restaurant premises, including all applicable extensions or renewals.

2.2 Renewal. Franchisee may, at its option, renew Franchisee's right to operate the Restaurant for two (2) additional terms which shall be the lesser of (a) ten (10) years or (b) the remaining term of the lease for the Restaurant premises, including all applicable extensions or renewals, subject to the following conditions, each of which must be met prior to each renewal:

2.2.1 Franchisee shall present evidence to Franchisor that Franchisee has the right to remain in possession of the premises of the Restaurant for the duration of the renewal term, or shall obtain approval by Franchisor of a new location for the Restaurant for the duration of the renewal term;

2.2.2 Franchisee shall give Franchisor written notice of Franchisee's election to renew no fewer than twelve (12) months nor more than eighteen (18) months prior to the end of the initial term, or the first renewal term, whichever is applicable;

2.2.3 Franchisee shall remodel and refurbish the Restaurant to comply with the Franchisor's then-current standards in effect for new California Tortilla Restaurants as described in Section 5.10 below;

2.2.4 From the time of Franchisee's election to renew through the expiration of the original term, or the first renewal term if applicable, Franchisee shall not have been in default of any provision of this Agreement, any amendment to this Agreement, any successor to this Agreement, or any other agreement between Franchisee and Franchisor or its subsidiaries and affiliates; and, in the reasonable judgment of Franchisor, Franchisee shall have substantially complied with all the terms and conditions of this Agreement, such other agreements, as well as the operating standards prescribed by Franchisor during the term of this Agreement;

2.2.5 Franchisee shall have satisfied all monetary obligations owed by Franchisee to Franchisor and its subsidiaries and affiliates, and to the CT Creative Fund (defined below), and shall have timely met those obligations throughout the term of this Agreement, or the first renewal term, as applicable;

2.2.6 Franchisee shall execute Franchisor's then-current form of franchise agreement, which agreement shall supersede this Agreement in all respects (except with respect to the renewal provisions of the new franchise agreement, which shall not supersede this Section 2, and except for the initial franchise fee which may be due under the new franchise agreement), and Franchisee acknowledges that the terms, conditions, and provisions of which, and the obligations of the parties thereto, may differ substantially from the terms, conditions, provisions and obligations in this Agreement, including, without limitation, a higher percentage royalty fee and advertising contribution or expenditure, and a different or modified Territory;

2.2.7 Franchisee shall pay, in lieu of an initial franchise fee, a renewal fee equal to twenty-five percent (25%) of Franchisor's then-current initial franchise fee for a new Restaurant;

2.2.8 Franchisee shall execute a general release, in a form prescribed by Franchisor, of any and all claims against Franchisor and its current and former subsidiaries and affiliates, and their respective officers, directors, agents, and employees; and

2.2.9 Franchisee and its personnel shall comply with Franchisor's then-current qualification and training requirements, prior to commencement of operations under the renewal form of franchise agreement.

2.3 Holdover. If Franchisee continues to operate the Restaurant after the end of the initial term or any renewal term hereof, without Franchisee exercising an option to renew, or without Franchisor granting a new or renewal term, with Franchisor's express or implied consent, and whether Franchisor's failure to exercise its rights upon termination or expiration under Section 14 was intentional or unintentional, Franchisee shall be deemed to be operating on a month-to-month basis under the terms and conditions of the then-expired Franchise Agreement. However, in such event, Franchisee may be terminated by Franchisor at any time upon one (1) month's prior written notice to Franchisee from Franchisor. If local law requires that Franchisor give notice of expiration or termination to Franchisee that is longer than one (1) month prior to the expiration of the term, such local law shall supersede this provision.

3. FRANCHISOR'S DUTIES

3.1 Initial and On-Going Assistance. Prior to the date of opening of the Restaurant, Franchisor shall provide to Franchisee, to the **"Principal Operator"** (as defined in Section 5.28.4. below and designated in Exhibit D), to Franchisee's General Manager (as defined in Section 5.28.4 below), and to such other employees of Franchisee that Franchisor shall have the right to approve, such training programs as Franchisor may designate, to be conducted at such time(s) and location(s) designated by Franchisor. Franchisor shall also provide such ongoing training as it may, from time to time, deem appropriate. Franchisor shall be responsible for the cost of instruction and materials, subject to the terms set forth in Section 5.5 below.

3.2 Development of the Restaurant. Franchisor or its architect shall utilize, or shall make available to Franchisee or Franchisee's architect, at no charge to Franchisee, prototypical architectural plans for use in connection with the construction of a Restaurant and for the exterior and interior design and layout, fixtures, furnishings, equipment, and signs. Franchisee acknowledges that such specifications shall not contain the requirements of any federal, state or local law, code or regulation (including without limitation those concerning the Americans with Disabilities Act (the "**ADA**") or similar rules governing public accommodations or commercial facilities for persons with disabilities), nor shall such plans contain the requirements of, or be used for, construction drawings or other documentation necessary to obtain permits or authorization to build a specific Restaurant, compliance with all of which shall be Franchisee's responsibility and at Franchisee's expense. Franchisee shall adapt, at Franchisee's expense, the standard specifications to the Restaurant location, subject to Franchisor's approval, as provided in Section 5.2.1 below, which will not be unreasonably withheld, provided that such plans and specifications conform to Franchisor's general criteria. Franchisee understands and acknowledges that Franchisor has the right to modify the architectural plans and specifications as Franchisor deems appropriate from time to time (however Franchisor will not modify the architectural schematics and specifications for the Restaurant developed pursuant to this Agreement once those architectural schematics and specifications have been provided to Franchisee). If requested by Franchisee, Franchisor will provide Franchisee or its architect with a hard copy of general or prototypical plans for a Restaurant.

3.3 Opening Assistance. Franchisor shall assist Franchisee in formulating its initial opening orders for inventory and supplies, and shall assist Franchisee in organizing the Restaurant. Franchisor shall have one of its representatives present at the Restaurant for assistance and consultation approximately three (3) days prior to, and approximately three (3) days following, the opening of the Restaurant, provided, however, that such representative is not required to be on-site more than six (6) hours each day. Franchisor will provide such additional on-site pre-opening and opening supervision and assistance as Franchisor deems advisable.

3.4 Manuals. Franchisor shall provide Franchisee, on loan, one (1) copy of the confidential operations manuals (the "**Manuals**"), as more fully described in Section 7 below.

3.5 Advertising and Promotion. Franchisor shall review and shall have the right to approve or disapprove all advertising and promotional materials that Franchisee proposes to use, pursuant to Section 10 below. In addition, during the term of this Agreement, Franchisor shall provide Franchisee with such other advertising assistance, sales advice, or related materials as Franchisor deems advisable.

3.6 System Creative Fund. Franchisor shall administer a system-wide advertising, marketing, promotional, and creative fund, which may be referred to as the "**CT Creative Fund**", or such other name as Franchisor may designate, in the manner set forth in Section 10 below.

3.7 Grand Opening Advertising Program. Franchisor shall assist Franchisee in developing and conducting the Grand Opening Advertising Program (as described in Section 10.8 below), which program shall be conducted at Franchisee's expense.

3.8 Computer System. Franchisor shall have the right to specify or require that certain brands, types, makes, and/or models of communications, computer systems, and hardware to be used by, between, or among Restaurants, including without limitation: (a) back office and point of sale systems, data, audio, video, and voice storage, retrieval, and transmission systems for use at Franchisee's Restaurant, between or among Restaurants, and between and among Franchisee's Restaurant and Franchisor and/or Franchisee; (b) physical, electronic, and other security systems; (c) printers and other peripheral devices; (d) archival back-up systems; (e) e-mail systems; and (f) Internet access mode and speed (collectively, the "**Computer System**").

3.9 Inspection. Franchisor shall inspect the Restaurant prior to the opening of the Restaurant. Franchisee shall not commence operation of the Restaurant without Franchisor's prior written approval.

3.10 On-Going Assistance. Franchisor shall provide periodic assistance to Franchisee in the marketing, management, and operation of the Restaurant as Franchisor determines at the time(s) and in the manner determined by Franchisor.

3.11 Delegation of Duties. Franchisee acknowledges and agrees that any designee, employee, or agent of Franchisor may perform any duty or obligation imposed on or available to Franchisor by the Agreement, as Franchisor may direct.

4. ROYALTY FEES; SALES REPORTING

4.1 Initial Franchise Fee. Franchisee shall pay Franchisor an initial franchise fee of Forty Thousand Dollars ($40,000) unless otherwise specified in Exhibit A (the "**Initial Franchise Fee**"), which must be paid in full prior to or upon execution of this Agreement. Payment of the Initial Franchise Fee shall be non-refundable in consideration of administrative and other expenses incurred by Franchisor in granting this franchise and for Franchisor's lost or deferred opportunity to franchise others.

4.2 Royalty Fees. During the initial term of this Agreement, Franchisee shall pay Franchisor a continuing royalty fee in an amount equal to five percent (5%) of the Net Sales of the Restaurant ("**Royalty Fees**") at such time, for such periods, and in such manner as specified herein, or as otherwise specified by Franchisor. Franchisee shall pay the Royalty Fees on a weekly basis, based on the Net Sales of the Restaurant for the prior Week (as defined below), or for such other period as Franchisor may specify in the Manuals or otherwise in writing. In addition, Franchisee shall report to Franchisor in writing (or electronically, as specified by Franchisor) its Net Sales (a "**Sales Report**"). As used in this Agreement, the following terms shall have the following meanings:

4.2.1 The term "**Net Sales**" means all revenue from the sale of all products, including all food and beverage products, all merchandise, and all other products or services offered at or from the Restaurant, and all other income of every kind and nature related to, derived from, or originating from the Restaurant, including proceeds of any business interruption insurance policies, whether at retail, delivery, catering, or wholesale (whether such sales are permitted or not), whether for cash, check, or credit, and regardless of collection in the case of check or credit; provided, however, that "Net Sales" excludes any customer refunds, discounts from coupon sales, sales taxes, and/or other taxes collected from customers by Franchisee and actually transmitted to the appropriate taxing authorities. Franchisor reserves the right to modify its policies and practices regarding revenue recognition, revenue reporting, and the inclusion or exclusion of certain revenue from "Net Sales" as circumstances, business practices, and technology change. For example, and by way of illustration and not limitation, in the event new technologies and practices, such as "Groupon," "Living Social" and other "deal-of-the-day" discounts, generate revenue for the Restaurant that may not be associated with a particular sale of products, Franchisor may establish policies to identify which revenues are, and are not, part of Net Sales.

4.2.2 The term "**Week**" means the period starting with the commencement of business on Monday and concluding at the close of business on the following Sunday (or, if the Restaurant is not open on a Sunday, the immediately preceding business day); however, Franchisor shall have the right to designate in writing any other period of not less than seven days to constitute a "Week" under this Agreement.

4.2.3 All payments required by this Agreement, other than the Initial Franchise Fee, shall be paid and submitted in such amounts and at such times as provided in this Agreement by means of automated clearing house (ACH) payment. Payments required under this Section 4.2 and Section 10 below based on the Net Sales for the preceding Week, and the Sales Report required by Section 4.2 for the Net Sales for the preceding Week, shall be paid and submitted so as to be received by Franchisor on a weekly basis. Franchisee shall deliver to Franchisor any and all reports, statements and/or other information required under Sections 9.3 and 9.5 below, at the time and in the format reasonably requested by Franchisor, which may include electronically polled data from Franchisee's Point of Sale system. Franchisee shall execute and deliver to Franchisor, Franchisor's "Authorization Agreement for Direct Payments", a copy of which is attached to this Agreement as Exhibit E, and Franchisee shall comply with the payment and reporting procedures specified by Franchisor in the Manual. Franchisee shall send Franchisor a report of Net Sales and other sales and operating data by close of business on Tuesday, for the Week ending the immediately preceding Sunday. Franchisor will initiate ACH debit transfers from Franchisee's designated bank account each Friday, and the debited funds shall clear by the following Monday. In the event there are insufficient funds in Franchisee's account to complete the ACH transfer then Franchisor shall have the right to charge Franchisee a fee of One Hundred ($100.00) Dollars for each instance of insufficient funds, provided, however, that the payment of such fee shall not relieve or delay Franchisee's obligation to make payment to Franchisor. Franchisor may, at its option and sole discretion, resubmit ACH transfer requests, but shall not do so until the second business day after an insufficient funds notice has been received from Franchisee's bank. In addition, Franchisor shall have the right to require all future payments by Franchisee be remitted by certified, bank or cashier's check, or other form of payment acceptable to Franchisor, in its sole discretion. Franchisee hereby expressly acknowledges and agrees that the full and timely payment of Royalty Fees and the Advertising Contribution (as defined in Section 10.2 below), and all other payments and amount required under this Agreement, shall be absolute, unconditional, fully earned, and due upon Franchisee's generation of Net Sales. Franchisee shall not, for any reason, delay or withhold the payment of all or any part of any payments due hereunder, including without limitation any payments require under this Section 4.2 or Section 10, put the same in escrow or set-off same against any claims or alleged claims Franchisee may allege against Franchisor, the CT Creative Fund, or others. Franchisee shall not, on grounds of any alleged non-performance by Franchisor or others, withhold payment of any fee, including without limitation Royalty Fees or Advertising Contribution, nor withhold or delay submission of any reports due hereunder including but not limited to Sales Reports. In addition, acceptance by Franchisor of any payments or partial payments due to it under this Agreement shall not be deemed a waiver by Franchisor of any preceding or succeeding breach by Franchisee of any terms, provisions, covenants, or conditions of this agreement, or other amounts due.

4.3 No Subordination. Franchisee shall not subordinate to any other obligation its obligation to pay Franchisor the Royalty Fees and/or any other fee or charge payable to Franchisor, whether under this Agreement or otherwise.

4.4 Overdue Payments and Reports. Any payment or report not actually received by Franchisor (or the appropriate advertising fund) on or before the date such payment or report is due shall be deemed overdue. If any payment or report is overdue, Franchisee shall pay Franchisor, in addition to the overdue amount, a late payment/late report charge of one hundred dollars ($100) for each week or part thereof that the payment or report is late, and interest on such amount from the date it was due until paid, at the rate of one and one-half percent (1.5%) per month, or the maximum rate permitted by law, whichever is less. Entitlement to such interest shall be in addition to any other remedies Franchisor may have.

4.5 Payments on Behalf of Franchisee. Franchisee shall pay to Franchisor, within fifteen (15) days of any written request by Franchisor which is accompanied by reasonable substantiating material, any monies which Franchisor has paid, or has become obligated to pay, on behalf of Franchisee, by consent or otherwise under this Agreement.

4.6 Other Payments. All payments and fees owed by Franchisee to Franchisor shall be paid by Franchisee in the manner and within the time periods as provided for in this Agreement or in the Manuals. Franchisor reserves the right to collect all fees and payments due by Franchisee by electronic funds transfer as provided for in Section 4.2 or otherwise in the Manuals.

5. FRANCHISEE'S DUTIES; OPERATIONAL STANDARDS

5.1 System Standards. Franchisee understands and acknowledges that every detail of the Restaurant is important to Franchisee, Franchisor, and other franchisees in order to develop and maintain high operating standards, to increase the demand for the products sold by all franchisees, and to protect Franchisor's reputation and goodwill.

5.2 Pre-Opening Obligations. Before commencing any construction of the Restaurant, Franchisee, at its expense, shall comply, to Franchisor's satisfaction, with all of the following requirements:

5.2.1 Franchisee shall employ a qualified, licensed architect or engineer who is reasonably acceptable to Franchisor to prepare, for Franchisor's approval, preliminary plans and specifications for site improvement and construction of the Restaurant based upon the architectural schematics, design and image specifications furnished by Franchisor or Franchisor's architect, and as may otherwise be authorized by Franchisor due to the particularities of the site of the Designated Location.

Franchisor's approval shall be limited to conformance with Franchisor's standard image specifications and layout and shall not relate to Franchisee's obligations with respect to any federal, state and local laws, codes and regulations including, without limitation, the applicable provisions of the ADA regarding the construction, design and operation of the Restaurant, which subjects shall be Franchisee's sole responsibility. In the event Franchisee employs an architect or engineer that has not been previously approved by Franchisor, or who, in Franchisor's sole judgment, does not have sufficient knowledge and experience in providing architectural and design services to California Tortilla franchisees and operators, Franchisor may impose an "Architectural Review Fee" of $2,500 which Franchisee shall pay prior to submitting its plans to Franchisor for its review, and which shall be used by Franchisor to defray a portion of Franchisor's cost in having Franchisee's plans reviewed by Franchisor's architect. Such fee shall not be applicable if Franchisee retains and utilizes Franchisor's designated or approved architect.

5.2.2 Franchisee shall comply, at Franchisee's expense, with all federal, state and local laws, codes and regulations, including, without limitation, the applicable provisions of the ADA regarding the construction, design and operation of the Restaurant. Franchisee shall execute and deliver to Franchisor an ADA Certification in the form attached to this Agreement as Exhibit F, to certify to Franchisor that Franchisee will hire and retain an architect and contractor that will construct the Restaurant in compliance with the ADA, and all state, local, and municipal codes and regulations. If Franchisee receives any complaint, claim, or other notice alleging a failure to comply with the ADA, Franchisee agrees that it shall provide Franchisor with a copy of such notice within five (5) days after receipt thereof.

5.2.3 Franchisee shall be responsible for obtaining all zoning classifications and clearances which may be required by state or local laws, ordinances, or regulations or which may be necessary or advisable owing to any restrictive covenants relating to Franchisee's location. After having obtained such approvals and clearances, Franchisee shall submit to Franchisor, for Franchisor's approval, final plans for construction based upon the preliminary plans and specifications. Franchisor's review and approval of plans shall be limited to review of such plans to assess compliance with Franchisor's design standards for Restaurants, including such items as trade dress, presentation of Proprietary Marks, and the provision to the potential customer of certain products and services that are central to the functioning of Restaurants. Franchisor shall not review, nor shall any approval be deemed to include, approval or acceptance of Franchisee's compliance with federal, state, or local laws and regulations, including the ADA, and Franchisee acknowledges and agrees that compliance with such laws is and shall be Franchisee's sole responsibility. Once approved by Franchisor, such final plans shall not thereafter be changed or modified without the prior written permission of Franchisor. Any such change made without Franchisor's prior written permission shall constitute a material default under this Agreement and Franchisor may withhold its authorization to open the Restaurant for business until the unauthorized change is rectified (or reversed) to Franchisor's reasonable satisfaction.

5.2.4 Franchisee shall obtain all permits and certifications required for the lawful construction and operation of the Restaurant and shall certify in writing to Franchisor that all such permits and certifications have been obtained. Franchisee shall provide copies of all such permits and certificates to Franchisor within ten (10) days of Franchisor's request for same.

5.2.5 Franchisee shall employ a qualified licensed general contractor who is reasonably acceptable to Franchisor to construct the Restaurant and to complete all improvements. Franchisee shall obtain and maintain in force during the entire period of construction the insurance required under Section 11 below; and Franchisee shall deliver to Franchisor such proof of such insurance as Franchisor shall require.

5.2.6 Within fifteen (15) days following Franchisee's execution of a lease for the Restaurant premises Franchisee shall provide to Franchisor copies of (i) the lease for the premises and executed Lease Rider and (ii) the landlord's and property management company's notice address and contact information. Further, not later than ten (10) days following Franchisee's opening of the Restaurant for business, Franchisee shall provide Franchisor with a copy of the commencement date letter from the landlord, or similar documentary evidence which indicates the commencement date under the lease and the expiration date of the lease.

5.2.7 Franchisee shall demonstrate to Franchisor, based on Franchisor's reasonable discretion, that Franchisee has such minimal operating and working capital for the opening of, and the first six (6) months of operation of the Restaurant, as Franchisor may reasonably require, based on Franchisee's financial statements and assets, Franchisee's application for the franchise, Franchisor's previously communicated minimum net worth and working capital standards, and the particular situation applicable to the Restaurant. In the event Franchisee fails to have the required funds prior to opening, Franchisor may withhold or deny Franchisor's consent to open.

5.3 <u>Development of the Restaurant</u>. Franchisee shall construct, furnish, and open the Restaurant according to the requirements contained herein, and Franchisee shall open the Restaurant at the later of (a) one hundred eighty (180) days from the Effective Date, or (b) if upon execution of this Agreement, a location for the Restaurant has not been obtained by Franchisee and approved by Franchisor, one hundred eighty (180) days from the later of (i) Franchisor's approval of the location for the Restaurant pursuant to the Site Selection Addendum), or (ii) Franchisee's access to the leased space as permitted by the lessor under the lease (generally referred to as the "turnover of the space" to Franchisee). Time is of the essence. Prior to opening for business, Franchisee shall comply with all pre-opening requirements set forth in this Agreement (including without limitation those with respect to the Grand Opening Advertising Program), the Manuals, and/or elsewhere in writing by Franchisor. Within thirty (30) days of the opening of the Restaurant, Franchisee shall provide to Franchisor a full breakdown of all costs associated with the development and construction of the Restaurant in such form as Franchisor may reasonably require.

5.4 <u>Restaurant Opening</u>. In connection with the opening of the Restaurant:

5.4.1 Franchisee shall not open the Restaurant for business without first complying with all of Franchisor's pre-opening requirements and obligations contained in this Agreement and the Manuals, and without obtaining Franchisor's written authorization to open.

5.4.2 Franchisee shall conduct, at Franchisee's expense, such grand opening promotional and advertising activities as Franchisor may require, as set forth in Section 10.8 below.

5.4.3 Franchisee shall provide at least fourteen (14) days' prior notice to Franchisor of the date on which Franchisee proposes to first open the Restaurant for business. Franchisor reserves the right to require the on-site presence of a representative of Franchisor at the opening of the Restaurant, and if so required, the Restaurant may not open without such representative in attendance; provided, however, that such requirement will not unreasonably delay the opening of the Restaurant.

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

5.4.5 Franchisee shall not open the Restaurant until the Principal Operator and General Manager have successfully completed all training required by Franchisor, and Franchisee has hired and trained to Franchisor's standards a sufficient number of employees to service the anticipated level of the Restaurant's customers.

5.4.6 In addition, Franchisee shall not open the Restaurant until all amounts due to Franchisor under this Agreement or any other related agreements have been paid.

5.5 Training. Franchisee acknowledges that its owners and managers must be knowledgeable regarding the operation of California Tortilla Restaurants, including the preparation and delivery of menu items and the provision of customer service in accordance with the brand standards established by Franchisor, which may be modified by Franchisor from time to time. Franchisee acknowledges that successful completion of Franchisor's training programs by Franchisee's owners and managers is critical to properly own, operate and manage the Restaurant. Franchisee acknowledges that applicable laws and regulations require that at least one person on the staff at a food service business must satisfactorily complete state and/or local mandated food handling training, and be certified as having successfully completed the training. Franchisee and at least one of its employees that attend Franchisor's management training program must also successfully complete a state and/or local mandated food handling program (e.g., the ServSafe program) before commencing training with Franchisor, and Franchisee and each trainee must provide a certificate of successful completion of such program prior to commencing training. Also, Franchisee's employees must be covered by Franchisee's workers' compensation insurance policy prior to commencing training with Franchisor, and Franchisee must provide evidence of such coverage if requested by Franchisor. With regard to training, at least two individuals must attend and successfully complete Franchisor's training programs: the Franchisee's Principal Operator (defined in Section 5.28.4) and one (1) full-time General Manager (defined in Section 5.28.4) (collectively, the "**Highly Trained Personnel**"). Prior to the opening of the Restaurant, the Highly Trained Personnel, and such other employees of Franchisee who Franchisor shall have the right to approve, shall attend and successfully complete, to Franchisor's satisfaction, the initial training program offered by Franchisor, pursuant to Section 3.1 above. If the same person is serving in the roles of both Principal Operator and General Manager, Franchisee shall designate, and send to the initial training program, an additional person who will have management responsibilities and functions at the Restaurant, and such person shall also successfully complete, to Franchisor's satisfaction, the initial training program. All aspects of the Franchised Business shall be conducted under the management and supervision of the Principal Operator. In addition, the daily operations of the Restaurant shall be supervised under the active full-time management of the Principal Operator or General Manager who has successfully completed (to Franchisor's satisfaction) Franchisor's initial training program.

5.5.1 If the Principal Operator or the General Manager cease active management of or employment at the Restaurant, Franchisee shall enroll a qualified replacement (who shall be reasonably acceptable to Franchisor) in Franchisor's initial training program not more than thirty (30) days after the cessation of the former person's full-time employment and/or management responsibilities. The replacement shall attend and successfully complete the basic management training program, to Franchisor's reasonable satisfaction, as soon as it is practical to do so. Franchisee shall pay Franchisor's then-current training fees and per diem expenses.

5.5.2 If Franchisee is in default of this Agreement, the Highly Trained Personnel may also be required to attend such refresher courses, seminars, and other training programs as Franchisor may reasonably specify from time to time, including up to ten (10) days of refresher programs each year during the term of the Agreement. In addition, such of the Highly Trained Personnel as Franchisor may require, may be required to attend Franchisor's annual convention for up to three (3) days per year.

5.5.3 The cost of all training (instruction and required materials) shall be borne by Franchisor. All other expenses incurred in connection with training and, if required, attendance at

Franchisor's annual convention, including without limitation the costs of transportation, lodging, meals, wages, workers' compensation insurance and trainees' meals during training sessions, for Franchisee and all of its employees, shall be borne by Franchisee.

5.5.4 If Franchisee requests that Franchisor provide on-site training in addition to that described in Section 3.1 above, and Franchisor is able to do so, then Franchisee agrees that it shall pay Franchisor's then-current per diem charges and out-of-pocket expenses, which shall be as set forth in the Manual or otherwise in writing.

5.6 Restaurant Premises. Franchisee shall use the Restaurant premises solely for the operation of the Restaurant; shall keep the Restaurant open and in normal operation for such hours and days as Franchisor may from time to time specify in the Manuals or as Franchisor may otherwise approve in writing; and shall refrain from using or permitting the use of the Restaurant premises for any other purpose or activity at any time. As used in this Section 5.6, the term "premises" shall include the grounds surrounding the Restaurant. Franchisee shall comply with all terms and conditions of the lease for the Restaurant, and shall provide Franchisor with copies of all notices of default or breach of the lease, notices regarding the renewal or extension of the lease, and all other notices or correspondence related to Franchisee compliance with lease and Franchisee's right to remain in possession of the premises.

5.7 Personnel. Franchisee agrees to maintain a competent, conscientious, trained staff in numbers sufficient to promptly service customers, including at least one (1) manager on duty at all times and to take such steps as are necessary to ensure that its employees preserve good customer relations and comply with such dress code as Franchisor may prescribe. Franchisor shall have the right to require Franchisee to employ one or more district managers (who shall be individuals reasonably acceptable to Franchisor) to supervise the day to day operations of Franchisee's restaurants, if Franchisee (and/or an affiliate of Franchisee) operates three (3) or more Restaurants. Any such district managers shall be required to attend and successfully complete the training courses specified in Section 5.5 above. Franchisee shall comply with all applicable employment and wage and hour laws and regulations. Franchisee is solely responsible for all employment decisions and functions of the Restaurant including, without limitation, those related to hiring, firing, training, compliance with wage and hour requirements, personnel policies, scheduling, benefits, recordkeeping, supervision, and discipline of employees, regardless of whether Franchisee receives advice from Franchisor on these subjects. Franchisee acknowledges and agrees that all personnel decisions, including hiring, firing, disciplining, compensation, benefits, and scheduling, shall be made by Franchisee, without any influence or advice from Franchisor, and such decisions and actions shall not be, nor be deemed to be, a decision or action of Franchisor. Further, it is the intention of the parties to this Agreement that Franchisor shall not be deemed a joint employer with Franchisee for any reason. If Franchisor incurs any cost, loss, or damage as a result of any actions or omissions of Franchisee or Franchisee's employees, including any that relate to any party making a finding of any joint employer status, Franchisee will fully indemnify Franchisor for such loss.

5.8 Health Standards. Franchisee shall meet and maintain the highest health standards and ratings applicable to the operation of the Restaurant. Franchisee shall furnish to Franchisor, within five (5) days after receipt thereof, a copy of all inspection reports, warnings, citations, certificates, and/or ratings resulting from inspections conducted by any federal, state or municipal agency with jurisdiction over the Restaurant. Without limiting the foregoing, Franchisee and all required personnel shall obtain and maintain all necessary and required licenses and certificates for food service and food handling as may be required by applicable local rules and regulations and/or the Manual.

5.9 Restaurant Maintenance. Franchisee shall at all times maintain the Restaurant in a high degree of sanitation, repair, and condition, and in connection therewith shall make such additions, alterations, repairs, and replacements thereto (but no others without Franchisor's prior written consent) as may be required for that purpose, including, without limitation, such periodic repainting or replacement of obsolete signs, furnishings, equipment, and decor as Franchisor may reasonably direct.

5.10 Remodeling. In addition to the maintenance obligations set forth in Section 5.9, Franchisee shall undertake such periodic and ongoing remodeling and upgrading of the Restaurant, the Restaurant premises, and the furniture, fixtures, equipment, décor, signage and trade dress of the Restaurant, as required by Franchisor in the Manuals or otherwise in writing. Without limiting the foregoing, not sooner than one (1) year after the date upon which the Restaurant opens for business, and again as a pre-condition to renewal pursuant to 2.2.3 above, Franchisee shall refurbish the Restaurant at its expense to conform to the building design, exterior facade, trade dress, signage, furnishings, decor, color schemes, and presentation of the Proprietary Marks in a manner consistent with the image then in effect for new Restaurants, including without limitation remodeling, redecoration, and modifications to existing improvements, as Franchisor may require in writing (collectively, "**Facilities Remodeling**").

5.10.1 Franchisee shall not be required to engage in Facilities Remodeling more than once every five (5) years during the term of this Agreement, and Franchisee shall not be required to spend more than One Hundred Thousand Dollars ($100,000) for all such Facilities Remodeling during the initial term; provided, however, that such dollar limitation shall be increased during the initial term of this Agreement by an amount equal to any increase in the Consumer Price Index over the same period, as measured by the Consumer Price Index (1982-84=100: all items; CPI-U; all urban consumers) published by the U.S. Bureau of Labor Statistics (or if the Index is no longer published, a successor index that Franchisor may reasonably specify in the Operations Manual or otherwise in writing), with any such adjustment to be calculated by multiplying the fixed dollar amount by a fraction the numerator of which is the CPI for the year and month of the adjustment, and the denominator of which is the CPI as of January 1 of the year this Agreement is signed. In addition, Franchisor may require Facilities Remodeling more often if such Facilities Remodeling is required as a pre-condition to renewal as described in Section 2.2.3 above.

5.10.2 The limitation on the frequency or scope of Facilities Remodeling shall not include repair to, or the normal upkeep of, the Restaurant, nor shall it include Equipment Upgrades (as defined below).

5.10.3 Franchisee shall have six (6) months after receipt of Franchisor's written notice, along with the specifications for such Facilities Remodeling, within which to complete Facilities Remodeling.

5.10.4 In addition to Facilities Remodeling, Franchisee shall make, from time to time, such upgrades and other changes to the electronic equipment utilized in the Restaurant and the Computer System as Franchisor may request in writing (and as also specified in Section 3.8 above) (collectively, "**Equipment Upgrades**"). Franchisor shall have the right to require any Equipment Upgrades it deems necessary for Franchisee's Restaurant; provided, however, that Franchisor shall not require Equipment Upgrades at a cumulative cost of more than Ten Thousand Dollars ($10,000) for such Equipment Upgrades every three (3) years.

5.11 Standards and Specifications. To insure that the highest degree of quality and service is maintained, Franchisee shall operate the Restaurant in strict conformity with such methods, standards, and specifications as Franchisor may from time to time prescribe in the Manuals or otherwise in writing. Franchisee agrees:

5.11.1 To maintain in sufficient supply, and to use and/or sell at all times only such products, ingredients, materials, supplies, and paper goods as conform to Franchisor's written standards and specifications, and to refrain from deviating therefrom by the use or offer of any non-conforming items without Franchisor's specific prior written consent.

5.11.2 To sell or offer for sale only such products as have been expressly approved for sale in writing by Franchisor; to sell or offer for sale all such products (except that Franchisee may, at its discretion, elect not to sell alcoholic beverages or smoothies), utilizing the ingredients and employing the preparation standards and techniques, as specified by Franchisor; to refrain from any deviation from Franchisor's standards and specifications, including the manner of preparation of products, without Franchisor's prior written consent; and to discontinue selling and offering for sale any products which Franchisor shall have the right to disapprove, in writing, at any time. If Franchisee deviates or proposes to deviate from Franchisor's standards and specifications, whether or not such deviation is approved by Franchisor, such deviation shall become the property of Franchisor.

5.11.3 To permit Franchisor or its agents, at any reasonable time, to remove samples of products, without payment therefor, in amounts reasonably necessary for testing by Franchisor or an independent laboratory to determine whether said samples meet Franchisor's then-current standards and specifications. In addition to any other remedies it may have under this Agreement, Franchisor may require Franchisee to bear the cost of such testing if the supplier of the item has not previously been approved by Franchisor or if the sample fails to conform to Franchisor's specifications.

5.11.4 To purchase and install, at Franchisee's expense, all fixtures, furnishings, equipment, decor, and signs as Franchisor shall specify; and to refrain from installing or permitting to be installed on or about the Restaurant premises, without Franchisor's prior written consent, any fixtures, furnishings, equipment, decor, signs, or other items not previously approved as meeting Franchisor's standards and specifications.

5.11.5 To refrain from installing or permitting to be installed any vending machine, game or coin operated device, unless specifically approved in writing, in advance, by Franchisor.

5.11.6 To fully and faithfully comply with all applicable governing authorities, laws and regulations. Franchisee shall immediately close the Restaurant and terminate operations in the event that: (i) any products sold at the Restaurant evidence adulteration or deviation from the standards set for products by Franchisor; (ii) any products sold at the Restaurant fail to comply with applicable laws or regulations; or (iii) Franchisee fails to maintain the products, Restaurant premises, equipment, personnel, or operation of the Restaurant in accordance with any applicable law or regulations. In the event of such closing, Franchisee shall immediately notify Franchisor in writing and Franchisee shall destroy immediately in accordance with procedures set forth in the Manual, or otherwise in writing by Franchisor, all products which it knows, or should know through the exercise of reasonable care, to be adulterated, tainted, contaminated, spoiled, unsafe, or otherwise unfit for human consumption and eliminate the source thereof, and remedy any unsanitary, unsafe, or other condition or other violation of the applicable law or regulation. Franchisee shall not reopen the Restaurant until after Franchisor has inspected the Restaurant premises, and Franchisor has determined that Franchisee has corrected the condition and that all products sold at the Restaurant comply with Franchisor's standards.

5.12 Suppliers. Franchisee shall purchase all products, ingredients, supplies, materials, and other products used or offered for sale at the Restaurant solely from suppliers that Franchisor has approved in writing. In determining whether it will approve any particular supplier, Franchisor shall consider various factors, including a supplier who can demonstrate, to Franchisor's continuing reasonable satisfaction, the ability to meet Franchisor's then-current standards and specifications for such items; who possesses adequate quality controls and capacity to supply Franchisee's needs promptly and reliably; who would enable the System, in Franchisor's sole opinion, to take advantage of marketplace efficiencies; and who has been approved in writing by Franchisor prior to any purchases by Franchisee from any such supplier, and have not thereafter been disapproved. For the purpose of this Agreement, the term "supplier" shall include, but not be limited to, manufacturers, distributors, resellers, and other vendors. Franchisee recognizes that Franchisor shall have the right to appoint only one manufacturer, distributor, reseller, and/or other vendor for any particular item, and that Franchisor may so designate itself or its affiliate.

5.12.1 If Franchisee wishes to purchase any products or any items from an unapproved supplier, Franchisee shall first submit to Franchisor a written request for such approval. Franchisee shall not purchase any products or services from any supplier until, and unless, such supplier has been approved in writing by Franchisor. Franchisor shall have the right to require that its representatives be permitted to inspect the supplier's facilities, and that samples from the supplier be delivered, either to Franchisor or to an independent laboratory designated by Franchisor for testing. A charge not to exceed the reasonable cost of the inspection and the actual cost of the test shall be paid by Franchisee or the supplier. Franchisor may also require that the supplier comply with such other requirements as Franchisor may deem appropriate, including payment of reasonable continuing inspection fees and administrative costs, or other payment to Franchisor by the supplier on account of their dealings with Franchisee or other franchisees, for use, without restriction (unless otherwise instructed by the supplier) and for services that Franchisor may render to such suppliers. Franchisor reserves the right, at its option, to reinspect from time to time the facilities and products of any such approved supplier and to revoke its approval upon the supplier's failure to continue to meet any of Franchisor's then-current criteria.

5.12.2 Nothing in the foregoing shall be construed to require Franchisor to approve any particular supplier, nor to require Franchisor to make available to prospective suppliers, standards and specifications for formulas, which Franchisor shall have the right to deem confidential.

5.12.3 Notwithstanding anything to the contrary contained in this Agreement, Franchisee acknowledges and agrees that, at Franchisor's sole option, Franchisor may establish one or more strategic alliances or preferred vendor programs with one or more nationally or regionally-known suppliers who are willing to supply all or some Restaurants with some or all of the products and/or services that Franchisor requires for use and/or sale in the development and/or operation of Restaurants. In this event, Franchisor may limit the number of approved suppliers with whom Franchisee may deal, designate sources that Franchisee must use for some or all products and other products and services, and/or refuse any of Franchisee's requests if Franchisor believes that this action is in the best interests of the System or the franchised network of Restaurants. Franchisor shall have unlimited discretion to approve or disapprove of the suppliers who may be permitted to sell products to Franchisee.

5.12.4 Franchisee acknowledges and agrees that Franchisor shall have the right to collect and retain all manufacturing allowances, marketing allowances, rebates, credits, monies, payments or benefits (collectively, "**Allowances**") offered by suppliers to Franchisee or to Franchisor or its affiliates based upon Franchisee's purchases of products and other goods and services. These Allowances are based on System-wide purchases of food, beverages, paper goods, merchandise and other items. Franchisee assigns to Franchisor or its designee all of Franchisee's right, title and interest in and to any and all such Allowances and authorizes Franchisor or its designee to collect and retain any or all such Allowances without restriction (unless otherwise instructed by the supplier); provided, however, that Franchisor's current policy is to utilize such funds for purposes that Franchisor believes, in its sole discretion, may enhance the "California Tortilla" brand and/or public awareness of the brand.

5.12.5 Franchisee shall comply with all terms, conditions, and obligations of all contracts and arrangements with suppliers, including contracts and arrangements negotiated by Franchisor or third parties as part of a network or multiple-franchise or multiple-restaurant supply and distribution arrangement, and Franchisee's contracts with and obligations to suppliers. Franchisee shall promptly pay all suppliers in accordance with the agreed-upon terms. In the event Franchisee fails to promptly pay one or more suppliers as required, Franchisor may, but is not required to, pay such supplier(s) on behalf of Franchisee, and Franchisee shall promptly reimburse Franchisor for such payment following notice from Franchisor, or Franchisor may obtain payment through the EFT process described in Section 4 above and the Manuals.

5.12.6 Franchisor reserves the right to designate, specify and/or approve the manufacturer and/or supplier of all signs used or installed at the Restaurant (the "**Sign Manufacturer**").

5.13 Promotional Materials. Franchisee shall require all advertising and promotional materials, signs, decorations, paper goods (including without limitation disposable food and beverage containers, bags, napkins, menus, and all forms and stationery used in the Restaurant), any and all replacement trade dress products, and other items which may be designated by Franchisor to bear the Franchisor's then-current Proprietary Marks and logos in the form, color, location, and manner then-prescribed by Franchisor.

5.14 Inspections. Franchisee grants Franchisor and its agents the right to enter upon the Restaurant premises at any time for the purpose of conducting inspections, for among other purposes, preserving validity of the Proprietary Marks, and verifying Franchisee's compliance with this Agreement and the policies and procedures outlined in the Manuals. Franchisor shall also have the right to take and maintain photographs and videos, in any medium, of the Restaurant and the operations at the Restaurant. Franchisee shall cooperate with Franchisor's representatives in such inspections by rendering such assistance as they may reasonably request; and, upon notice from Franchisor or its agents and without limiting Franchisor's other rights under this Agreement, Franchisee shall take such steps as may be necessary to correct immediately any deficiencies detected during any such inspection. In the event Franchisee receives scores on its periodic quality assurance reports, currently designated as "quality, service, cleanliness, and culture" reports ("**QSCC Reports**") that require remediation of problems, and Franchisor is required to conduct more than one (1) follow-up visit to assess Franchisee's compliance with system standards and the QSCC Report, Franchisee shall reimburse Franchisor for all of Franchisor's costs and expenses, including labor and travel expenses, incurred in conducting all such follow-up inspections after the first follow-up inspection. Franchisor may also assess a reinspection fee of $100 per visit, in addition to a reimbursement of costs. Franchisee shall make such payments within fifteen (15) days of receipt of an invoice from Franchisor, or Franchisor may elect to obtain payment through the EFT provisions of Section 4.

5.15 Technology and Computer System. At Franchisor's request, Franchisee shall purchase or lease, and thereafter maintain, the Computer System, and comply with Franchisor's requirements, specifications and policies concerning the use of technology, as they may be specified in this Agreement, or specified or modified in the Manuals or otherwise in writing.

5.15.1 Franchisor shall have the right at any time to retrieve and use such data and information from Franchisee's Computer System that Franchisor deems necessary or desirable, including, without limitation, the uses identified in Section 9.5 below. In view of the contemplated interconnection of computer systems and the necessity that such systems be compatible with each other, Franchisee expressly agrees that it shall strictly comply with Franchisor's standards and specifications for all item(s) associated with Franchisee's Computer System, and will otherwise operate its Computer System in accordance with Franchisor's standards and specifications. To ensure full operational efficiency and optimum communication capability between and among equipment and computer systems installed by Franchisee, Franchisor, and other franchisees, Franchisee agrees, at its expense, that Franchisee shall keep its Computer System in good maintenance and repair, and, at its expense, and following the determination that Franchisor shall have the right to make, to the effect that same will prove economically or otherwise beneficial to all System franchisees, that Franchisee shall promptly install such additions, changes, modifications, substitutions and/or replacement to Franchisee's computer hardware, software, telephone and power lines, and other related facilities, as Franchisor directs periodically in writing. Franchisee shall provide to Franchisor, upon Franchisor's request, all e-mail lists and customer lists used or maintained by Franchisee on the Computer System or elsewhere.

5.15.2 Franchisor has the right, but not the obligation, to develop or have developed for it, or to designate, any or all of the following: (a) computer software programs and accounting system software that Franchisee must use in connection with the Computer System ("**Required Software**"), which Franchisee must install; (b) updates, supplements, modifications, or enhancements to the Required Software, which Franchisee must install; (c) the tangible media upon which such Franchisee must record or receive data; (d) the database file structure of Franchisee's Computer System; (e) an Extranet for informational assistance, which may include, without limitation, the Manuals, training other assistance materials, and management reporting solutions; and (f) answering service requirements and/or system-wide phone order processing of all delivery orders, and/or to designate vendors that will provide such order processing.

5.15.3 Franchisee agrees to install and use the Computer System and Required Software in the manner that Franchisor requires.

5.15.4 Franchise agrees to implement and periodically upgrade and make other changes to the Computer System and Required Software as Franchisor may reasonably request in writing (collectively, "**Computer Upgrades**").

5.15.5 Franchisee agrees to comply with Franchisor's written specifications (whether in the Manuals or otherwise) with respect to the Computer System and the Required Software, and with respect to Computer Upgrades, at Franchisee's own expense.

5.15.6 Franchisee agrees to afford Franchisor unimpeded access to its Computer System and Required Software in the manner, form, and at the times that Franchisor requests.

5.15.7 Because changes to technology are dynamic and not predictable within the term of this Agreement, and in order to provide for inevitable but unpredictable changes to technological needs and opportunities, Franchisee agrees: (a) that Franchisor will have the right to establish, in writing, reasonable new standards to address new technologies, whether published in the Manuals or otherwise in writing, and that Franchisor has the right to implement those changes in technology into the System; and (b) to abide by Franchisor's reasonable new standards as if this Section 5.15, and other technology provisions in this Agreement, were periodically revised for that purpose.

5.16 Data. Franchisee agrees that all data that it collects from customers and potential customers in connection with the Franchised Business ("**Customer Data**") is deemed to be owned exclusively by Franchisor, and Franchisee also agrees to provide the Customer Data to Franchisor at any time that Franchisor requests. Franchisee has the right to use Customer Data while this Agreement or a successor or renewal Franchise Agreement is in effect, but only in connection with operating the Restaurant and only in accordance with the policies that Franchisor establishes from time to time. Franchisee may not sell, transfer, or use Customer Data for any purpose other than operating the Restaurant and marketing "California Tortilla brand" products and services. However, if Franchisee Transfers the Restaurant (as provided in Section 12 below), as part of the Transfer, Franchisee must also Transfer use of the Customer Data to the buyer as part of the total purchase price paid for the Restaurant.

5.17 Privacy Laws. Franchisee agrees to abide by all applicable laws pertaining to the privacy of consumer, employee, and transactional information ("**Privacy Laws**").

5.17.1 Franchisee agrees to comply with Franchisor's standards and policies pertaining to Privacy Laws. If there is a conflict between Franchisor's standards and policies pertaining to Privacy Laws and actual applicable law, Franchisee shall: (i) comply with the requirements of applicable law; (ii) immediately give Franchisor written notice of said conflict; and (iii) promptly and fully cooperate with Franchisor and its counsel in determining the most effective way, if possible, to meet its standards and policies pertaining to Privacy Laws within the bounds of applicable law.

5.17.2 Franchisee agrees not to publish, disseminate, implement, revise, or rescind a data privacy policy without Franchisor's prior written consent as to said policy.

5.18 Website. Franchisor will maintain a Website for benefit of Franchisor and its franchisees. Franchisee shall not establish a Website or permit any other party to establish a Website that relates in any manner to its Restaurant or referring to the Proprietary Marks. Franchisor has the right, but not the obligation, to provide one or more references or webpage(s) to Franchisee's Restaurant, as Franchisor may periodically designate, within Franchisor's Website. (The term "**Website**" as used in this Agreement means one or more related documents, designs, pages, or other communications that can be accessed through electronic means, including but not limited to the Internet, World Wide Web, social networking sites (including but not limited to Facebook, Twitter, LinkedIn, Instagram, YouTube, etc.), blogs, vlogs, and other applications, etc.). If Franchisor ever does approve in writing a request for Franchisee to use a separate Website, then Franchisor has the right to require that Franchisee meet any or all of the following requirements (but this provision is not meant to imply that Franchisor is obligated to permit Franchisee to have its own Website):

5.18.1 Franchisee agrees that any Website that it owns or that is maintained for its benefit will be deemed "advertising" under this Agreement, and will be subject to (among other things) Franchisor's prior written approval pursuant to Section 10.10 below.

5.18.2 Franchisee agrees not to establish or use any Website without Franchisor's prior written approval.

5.18.3 Franchisee agrees that before establishing any Website, Franchisee will submit to Franchisor, for Franchisor's prior written approval, a sample of the proposed Website domain name, format, visible content (including, without limitation, proposed screen shots), and non-visible content (including, without limitation, meta data and meta tags) in the form and manner Franchisor may reasonably require.

5.18.4 Franchisee agrees not to use or modify any such Website without Franchisor's prior written approval as to such proposed use or modification.

5.18.5 Franchisee agrees, in addition to any other applicable requirements, to comply with Franchisor's written standards and specifications for Websites, whether set forth in the Manuals or otherwise.

5.18.6 Franchisee agrees that, upon Franchisor's written request, Franchisee will promptly establish and maintain links from Franchisee's Website to Franchisor's Website (and such other Websites as Franchisor may request).

5.19 POS or Cash Register Systems. Franchisee agrees to record all sales on computer-based point of sale systems or such other types of cash register systems that Franchisor has the right to designate or approve in the Manual or otherwise in writing ("**POS System**"). The POS System is deemed to be part of Franchisee's Computer System. Franchisee must utilize computer-based point-of-sale devices that are fully compatible with any program or system that Franchisor has the right to designate, and Franchisee must record all Net Sales and all revenue information on such equipment.

5.20 Gift Cards. If Franchisor requires, Franchisee agrees to participate in the gift card program(s) that Franchisor specifies. For this purpose, Franchisee must purchase the software, hardware, blank cards, and other items needed to sell and process gift cards or stored value cards, which Franchisor may specify in writing in the Manuals or otherwise. Franchisee also agrees to pay such monthly and per-swipe transaction fees as may be required by the vendor of the gift card system. Franchisee must sell or honor gift cards only in accordance with Franchisor's written standards. Franchisee must account for all gift card sales, gift card redemptions, and other gift card transactions in the manner Franchisor specifies in the Manuals. Franchisee must maintain sufficient cash reserves to pay Franchisor or other franchisees as part of any network-wide periodic reconciliation of the gift card program. Franchisee shall pay Franchisor or make payments as specified by Franchisor, in such amounts and at such times as directed by Franchisor, in accordance with Franchisor's gift card rules, programs and policies. Franchisee agrees not to sell, issue, or redeem gift certificates other than gift cards that Franchisor has approved in writing.

5.21 E-Mail, Internet and Other Media; E-Mail and Fax Communications. Franchisee must comply with Franchisor's requirements and policies (as described in the Manuals or otherwise in writing) with respect to the transmission of all e-mails in connection with the Restaurant and the business, and in connection with discussing, advertising, or disseminating any information, or otherwise having a presence, on the Internet, or in any other media, regarding the Restaurant and the business. Such activities include, without limitation, participation in any Internet "blogs" or social networking sites. Any such activities which are not expressly permitted in the Manuals or otherwise in writing, or for which Franchisee has not previously received approval from Franchisor, shall be subject to Franchisor's approval as described in Section 10.10 below.

5.21.1 Franchisee agrees that exchanging information with Franchisor by e-mail and fax is an important way to enable quick, effective, and efficient communication, and that Franchisor is entitled to rely upon each other's use of e-mail and faxes for communicating as part of the economic bargain underlying this Agreement. To facilitate the use of e-mail and fax to exchange information, Franchisee authorizes the transmission of e-mail by Franchisor and Franchisor's employees, vendors, and affiliates (on matters pertaining to the business contemplated hereunder) (together, "**Official Senders**") to Franchisee and Franchisee's employees during the term of this Agreement. Franchisor's list of Official Senders shall be the master and official list of Official Senders.

5.21.2 Franchisee agrees not to transmit or cause any other party to transmit advertisements or solicitations by telephone, text, or e-mail or other electronic media without Franchisor's prior written consent as to: (a) the content of such advertisements or solicitations; and (b) Franchisee's plan for transmitting such advertisements or solicitations. Franchisor's review of Franchisee's advertisements or solicitations, or of Franchisee's plan for transmitting such advertisements or solicitations, is only for Franchisor's benefit and Franchisor's review will pertain to whether the proposed advertisements or solicitations comply with Franchisor's specifications. Franchisee agrees that it will be solely responsible for complying with any laws pertaining to sending such advertisements and solicitations, including but not limited to, the Controlling the Assault of Non-Solicited Pornography and Proprietary Marketing Act of 2003 (known as the "CAN-SPAM Act of 2003") and the Telephone Consumer Protection Act of 1991.

5.21.3 Franchisee agrees that: (a) Official Senders are authorized to send e-mails and faxes to Franchisee and its employees; (b) Franchisee will cause its officers, directors, and employees (as a condition of their employment or position with Franchisee) to give their consent (in an e-mail, electronically, or in a pen-and-paper writing, as Franchisor may reasonably require) to Official Senders' transmission of e-mails and faxes to those persons, and that such persons shall not opt-out, or otherwise ask to no longer receive e-mails, from Official Senders during the time that such person works for or is affiliated with Franchisee; and (c) Franchisee will not opt-out, or otherwise ask to no longer receive e-mails and/or faxes, from Official Senders during the term of this Agreement.

5.21.4 The consent given above in this Section 5.21 will not apply to the provision of formal notices under this Agreement by either party using e-mail unless and until the parties have otherwise agreed, in a pen-and-paper writing that both parties have signed.

5.22 Credit Cards and Other Methods of Payment. At all times, Franchisee must maintain credit-card relationships with the credit- and debit-card issuers or sponsors, check or credit verification services, financial-center services, and electronic-funds-transfer systems that Franchisor designates as mandatory, and Franchisee must not use any such services or providers that Franchisor has not approved in writing or for which Franchisor has revoked its approval. Franchisor has the right to modify its requirements and designate additional approved or required methods of payment and vendors for processing such payments, and to revoke its approval of any service provider. Franchisee must comply with all credit-card policies, including minimum purchase requirements for a customer's use of a credit card as prescribed in the Manuals. Franchisee must comply with the Payment Card Industry Data Security Standards ("PCI DSS") as they may be revised and modified by the Payment Card Industry Security Standards Council (see www.pcisecuritystandards.org), or such successor or replacement organization and/or in accordance with other standards as Franchisor may specify, and the Fair and Accurate Credit Transactions Act ("FACTA"). Franchisee shall also upgrade periodically its POS System and related software, at Franchisee's expense, to maintain compliance with PCI DSS, FACTA, and all related laws and regulations.

5.23 Uniforms. To promote a uniform System image, Franchisee shall require all of its Restaurant personnel to dress during business hours in the attire specified in the Manuals. Franchisee shall purchase such attire only from approved suppliers.

5.24 Incentive Programs. Franchisee shall offer for sale, and will honor for purchases by customers, any incentive or convenience programs which Franchisor may institute from time to time, and Franchisee shall do so in compliance with Franchisor's standards and procedures for such programs.

5.25 Prices. With respect to the sale of all menu items, products, or services, Franchisee shall have sole discretion as to the prices to be charged to customers; provided, however, that Franchisor may establish, advertise, and promote maximum prices on such menu items, products, and services, subject to compliance with applicable laws. If Franchisor has imposed such a maximum price on a particular menu item, product, or service, and subject to applicable law, Franchisee may not charge a price for such menu item, product, or service, in excess of the maximum price set by Franchisor.

5.26 Compliance with Laws and Good Business Practices. Franchisee shall operate the Restaurant in full compliance, subject to its right to contest, with all applicable laws, ordinances and regulations including, without limitation, all government regulations relating to handling of food products, occupational hazards and health, workers' compensation insurance, unemployment insurance and withholding and payment of federal and state income taxes, social security taxes and sales taxes. All advertising and promotion by Franchisee shall be completely factual and shall conform to the highest standards of ethical advertising. Franchisee shall in all dealings with its customers, suppliers and the public adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct, and shall comply with all consumer protection and unfair competition laws and regulations. Franchisee agrees to refrain from any business or advertising practice which may be injurious to the business of Franchisor and the goodwill associated with the Proprietary Marks and other Restaurants.

5.27 Franchisee Advisory Council. Franchisor reserves the right to create a "Franchisee Advisory Council," or similar advisory group, for the purpose of fostering communication among and between franchisees and Franchisor, as well as to establish, modify or discuss various policies applicable to California Tortilla businesses operating under the System. If and when the Franchisee Advisory Council is created, Franchisee shall be required to participate in such Franchisee Advisory Council meetings and programs as Franchisor shall designate. Franchisee may be required to pay such dues to the Franchisee Advisory Council as Franchisor shall determine, and Franchisee shall pay all costs and expenses incurred in connection with participation in the Franchisee Advisory Council including, without limitation, the costs of transportation, lodging, and meals.

5.28 Franchisee Structure; Managing Owner, Principal Operator, and Principals.

5.28.1 Except as otherwise approved in writing by Franchisor, if Franchisee is a corporation, it shall: (i) be newly organized, and confine its activities, and its governing documents shall at all times provide that its activities are confined, exclusively to operating the Restaurant; (ii) furnish Franchisor with a copy of its articles or certificates of incorporation and bylaws, as well as such other documents as Franchisor may reasonably request, and any amendment thereto; (iii) maintain stop transfer instructions on its records against the transfer of any equity securities and shall only issue securities upon the face of which a legend, in a form satisfactory to Franchisor, appears which references the transfer restrictions imposed by this Agreement; (iv) not issue any voting securities or securities convertible into voting securities; and (v) maintain a current list of all owners of record and all beneficial owners of any class of voting stock of Franchisee and furnish the list to Franchisor upon request, which list shall be amended to reflect changes in ownership, as permitted under this Agreement.

5.28.2 If Franchisee is a partnership or limited liability partnership it shall: (i) be newly organized, and confine its activities, and its governing documents shall at all times provide that its activities are confined, exclusively to operating the Restaurant; (ii) furnish Franchisor with its partnership agreement as well as such other documents as Franchisor may reasonably request, and any amendments thereto; (iii) prepare and furnish to Franchisor, upon request, a current list of all general and limited partners in Franchisee, which list shall be amended to reflect changes in ownership, as permitted under this Agreement; and (iv) maintain stop transfer instructions on its records and in its partnership agreement against the transfer of partnership interests and equity securities, and shall only issue securities or partnership interests with documentation which bears a notice or legend, in a form satisfactory to Franchisor, which references the transfer restrictions imposed by this Agreement.

5.28.3 If a Franchisee is a limited liability company, Franchisee shall: (i) be newly organized, and confine its activities, and its governing documents shall at all times provide that its activities are confined, exclusively to operating the Restaurant; (ii) furnish Franchisor with a copy of its articles of organization and operating agreement, as well as such other documents as Franchisor may reasonably request, and any amendments thereto; (iii) prepare and furnish to Franchisor, upon request, a current list of all members and managers in Franchisee, which list shall be amended to reflect changes in ownership, as permitted under this Agreement; and (iv) maintain stop transfer instructions on its records against the transfer of equity securities and shall only issue securities upon the face of which bear a legend, in a form satisfactory to Franchisor, which references the transfer restrictions imposed by this Agreement.

5.28.4 Franchisee shall designate, subject to the review and approval or disapproval by Franchisor, individuals to serve in the following positions:

(a) Principal Operator: The Principal Operator shall be a person who has not less than twenty percent (20%) of the outstanding equity interests in Franchisee and who will be responsible for the overall operation and management of the Franchised Business and the Restaurant. (If the Franchisee is a sole proprietorship, the sole owner shall be Principal Operator.) The Principal Operator will be the individual responsible for all communications between Franchisor and Franchisee, is the person to whom, and from whom all contractually required notices must be sent, and is the principal spokesperson for Franchisee in all communications with Franchisor and other franchisees and operators in the California Tortilla network of restaurants. The Principal Operator will be the person who has the right to contractually bind the Franchisee. The Principal Operator must successfully complete all Restaurant operations training programs, and shall be responsible for communications with the Franchisor and its staff regarding all Restaurant operational matters, including compliance with all Franchise Agreement and Manual requirements that pertain, in any way, to the Restaurant. If the Principal Operator, as the owner of twenty percent (20%) or more of the outstanding equity interests of Franchisee, must execute the Guarantee in the form set forth in Exhibit C. The Principal Operator shall comply with all of Franchisor's standards and requirements as they may be modified from time to time in the Manual or otherwise in writing. Franchisee may designate a new Principal Operator, subject to the prior written approval of Franchisor, the satisfaction of all of Franchisor's requirements for Principal Operators in this Agreement or in the Manuals, and a revision of Exhibit D.

(b) General Manager: Franchisee shall designate a Restaurant general manager, subject to approval by Franchisor, and satisfactory completion of Franchisor's training programs, who shall be responsible for the direct oversight and management of the day-to-day operations and personnel at the Restaurant (the "**General Manager**"). The General Manager and the Principal Operator may be the same person, if he/she is qualified to perform both roles and duties, and is approved by Franchisor.

(c) Principals: A Principal is any person that has any direct or indirect interest in Franchisee, or in any entity that has any direct or indirect ownership interest in Franchisee. All Principals, along with their ownership interest, shall be identified in Exhibit D hereto, and any change in ownership or Principals, whether subject to Section 12 or not, shall be provided to Franchisor, in advance and in writing, and Exhibit D shall be amended to reflect all changes in Principals.

5.29 Guarantee of Performance. Each present and future: (i) shareholder of a corporate Franchisee; (ii) member of a limited liability company Franchisee; (iii) partner of a partnership Franchisee; or (iv) partner of a limited liability partnership Franchisee; shall jointly and severally guarantee Franchisee's performance of each and every provision of this Agreement by executing the Guarantee, Indemnification and Acknowledgement in the form attached to this Agreement as Exhibit C, provided, however, that no guarantee shall be required from a person who owns, directly or indirectly, less than a 20% equity interest in Franchisee or who acquires Franchisee's securities (other than a controlling interest) if and after Franchisee becomes registered under the Securities Exchange Act of 1934. For purposes of calculating the interest of a person, all interests held by the following shall be attributed, requiring guarantees from all such individuals or entities: (a) family of an individual including his brothers and sisters (whether by the whole or half blood), spouse, ancestors, lineal descendants, and spouses of any of these individuals and lineal descendants of any of such spouses; and (b) any entities controlled in the aggregate by some or all of such individuals. In addition, Franchisor may require that the spouse (or domestic partner or other immediate family member) of an owner of Franchisee sign the Guarantee, Indemnification and Acknowledgment.

5.30 System Modifications. Franchisee acknowledges and agrees that from time to time hereafter Franchisor may change or modify the System as Franchisor deems appropriate, including, without limitation, to reflect the changing market and/or to meet new and changing consumer demands, and that variations and additions to the System may be required from time to time to preserve and enhance the public image of the System and operations of California Tortilla Restaurants. Franchisor's changes to the System may include, without limitation, the adoption and use of new or modified products, services, equipment and furnishings and new techniques and methodologies relating to the preparation, sale, promotion and marketing of food and beverage products and services, and new trademarks, service marks and copyrighted materials. Notwithstanding the provisions and limitations of Section 5.10, Franchisee shall, upon reasonable notice, accept, implement, use and display in the operation of the Restaurant any such changes in the System, as if they were part of this Agreement at the time of execution hereof, at Franchisee's sole expense. Additionally, Franchisor reserves the right, in its sole discretion, to vary the standards throughout the System, as well as the services and assistance that Franchisor may provide to some franchisees based upon the peculiarities of a particular site or circumstance, existing business practices, or other factors that Franchisor deems to be important to the operation of any California Tortilla Restaurant or the System. Franchisee shall have no recourse against Franchisor on account of any variation to any franchisee and shall not be entitled to require Franchisor to provide Franchisee with a like or similar variation hereunder.

5.31 No Third-Party Management. The Restaurant shall be operated under the control and supervision of Franchisee, its Principal Operator, the General Manager or another general manager hired by and employed by Franchisee and approved by Franchisor. Franchisee shall not, without the prior written approval of Franchisor, which may be denied for any reason or no reason at all, hire or retain a management company, manager (other than an employee manager trained and approved by Franchisor), or third party to undertake any of the management or operational functions of the Restaurant.

6. PROPRIETARY MARKS

6.1 Ownership of the Proprietary Marks. Franchisor represents with respect to the Proprietary Marks that:

6.1.1 Franchisor is the owner of all right, title, and interest in and to the Proprietary Marks.

6.1.2 Franchisor has taken and will take all steps reasonably necessary to preserve and protect Franchisor's ownership of, and validity in, the Proprietary Marks.

6.2 Use of the Proprietary Marks. With respect to Franchisee's use of the Proprietary Marks, Franchisee agrees that:

6.2.1 Franchisee shall use only the Proprietary Marks designated by Franchisor, and shall use them only in the manner authorized and permitted by Franchisor; all items bearing the Proprietary Marks shall bear the then-current logo.

6.2.2 Franchisee shall use the Proprietary Marks only for the operation of the business franchised hereunder and only at the location authorized hereunder, or in franchisor-approved advertising for the business conducted at or from that location.

6.2.3 Unless Franchisor otherwise directs Franchisee, in writing, to do so, Franchisee shall operate and advertise the Restaurant only under the name "California Tortilla," without prefix or suffix.

6.2.4 During the term of this Agreement and any renewal of this Agreement, Franchisee shall identify itself (in a manner reasonably acceptable to Franchisor) as the owner of the Restaurant in conjunction with any use of the Proprietary Marks, including, but not limited to, uses on invoices, order forms, receipts, and contracts, as well as the display of a notice in such content and form and at such conspicuous locations on the premises of the Restaurant as Franchisor may designate in writing.

6.2.5 Franchisee's right to use the Proprietary Marks is limited to such uses as are authorized under this Agreement, and any unauthorized use thereof shall constitute an infringement of Franchisor's rights.

6.2.6 Franchisee shall not use the Proprietary Marks to incur any obligation or indebtedness on behalf of Franchisor.

6.2.7 Franchisee shall not use the Proprietary Marks or any variant thereof as part of its corporate or other legal name, or as part of any e-mail address, domain name, websites or other identification of Franchisee in any electronic medium (including but not limited to e-mail addresses, account names in a social media site, and the like) of Franchisee or the Restaurant in any forum or medium.

6.2.8 Franchisee shall execute any documents deemed necessary by Franchisor to obtain protection for the Proprietary Marks or to maintain their continued validity and enforceability.

6.2.9 With respect to litigation involving the Proprietary Marks, the parties agree that:

6.2.9.1 Franchisee shall promptly notify Franchisor of any suspected infringement of the Proprietary Marks, any known challenge to the validity of the Proprietary Marks, or any known challenge to Franchisor's ownership of, or Franchisee's right to use, the Proprietary Marks licensed hereunder. Franchisee acknowledges that Franchisor shall have the right to direct and control any administrative proceeding or litigation involving the Proprietary Marks, including any settlement thereof. Franchisor shall also have the right, but not the obligation, to take action against uses by others that may constitute infringement of the Proprietary Marks.

6.2.9.2 Except to the extent that any litigation involving the Proprietary Marks is the result of Franchisee's use of the Proprietary Marks in a manner inconsistent with the terms of this Agreement or involving any other claim against Franchisor, Franchisor agrees to reimburse Franchisee for its out-of-pocket litigation costs in doing such acts and things, except that Franchisee shall bear the salary costs of its employees, and Franchisor shall bear the costs of any judgment or settlement but only if the claim on which the judgment or settlement is made is only related to the validity or ownership of the mark. To the extent that such litigation is the result of Franchisee's use of the Proprietary Marks in a manner inconsistent with the terms of this Agreement, Franchisee shall reimburse Franchisor for the cost of such litigation (or, upon Franchisor's written request, pay Franchisor's legal fees directly), including without limitation attorney's fees, as well as the cost of any judgment or settlement.

6.2.9.3 If Franchisor undertakes the defense or prosecution of any litigation relating to the Proprietary Marks, Franchisee shall execute any and all documents and do such acts and things as may, in the opinion of counsel for Franchisor, be necessary to carry out such defense or prosecution, including, but not limited to, becoming a nominal party to any legal action.

6.3 Franchisee Acknowledgements. Franchisee expressly understands and acknowledges that:

6.3.1 The Proprietary Marks are valid, owned by Franchisor, and serve to identify the System and those who are authorized to operate under the System.

6.3.2 Neither Franchisee nor any Principal of Franchisee shall directly or indirectly contest the validity or Franchisor's ownership of the Proprietary Marks, nor shall Franchisee, directly or indirectly, seek to register the Proprietary Marks with any government agency, except with Franchisor's express prior written consent.

6.3.3 Franchisee's use of the Proprietary Marks does not give Franchisee any ownership interest or other interest in or to the Proprietary Marks, except the license granted by this Agreement.

6.3.4 Any and all goodwill arising from Franchisee's use of the Proprietary Marks shall inure solely and exclusively to Franchisor's benefit, and upon expiration or termination of this Agreement and the license herein granted, no monetary amount shall be assigned as attributable to any goodwill associated with Franchisee's use of the System or the Proprietary Marks.

6.3.5 The right and license of the Proprietary Marks granted hereunder to Franchisee is non-exclusive, and Franchisor thus has and retains the rights, among others:

6.3.5.1 To use the Proprietary Marks itself in connection with selling products and services;

6.3.5.2 To grant other licenses for the Proprietary Marks, in addition to those licenses already granted to existing franchisees or other licensees authorized to operate using the Proprietary Marks;

6.3.5.3 To develop and establish other systems using the same or similar Proprietary Marks, or any other proprietary marks, and to grant licenses or franchises thereto without providing any rights therein to Franchisee.

6.3.6 Franchisor reserves the right to substitute different proprietary marks for use in identifying the System and the businesses operating thereunder if the Proprietary Marks no longer can be used, or if Franchisor, exercising its right to do so, determines that substitution of different proprietary marks will be beneficial to the System. In such circumstances, Franchisee shall implement at Franchisee's expense such substituted proprietary marks in such ways as Franchisor may direct, and the use of the substituted proprietary marks shall be governed by the terms of this Agreement.

7. CONFIDENTIAL OPERATING MANUALS

7.1 Manuals. In order to protect the reputation and goodwill of Franchisor and to maintain high standards of operation under Franchisor's Proprietary Marks, Franchisee shall conduct its business in accordance with the Manuals, one (1) copy of which Franchisee acknowledges having received on loan from Franchisor for the term of this Agreement. The Manuals may consist of multiple volumes of printed text, video and/or audio tapes and files, computer disks, and other electronically stored data, and various and periodic or episodic operational and/or management bulletins, in any format, and Franchisee acknowledges and agrees that Franchisor may provide a portion or all of the Manuals (including updates and amendments), and other instructional information and materials in, or via, electronic media, including without limitation, through the Internet.

7.2 Confidentiality of the Manuals. Franchisee shall at all times treat the Manuals, any other manuals created for or approved for use in the operation of the Restaurant, and the information contained therein, as confidential, and shall use best efforts to maintain such information as secret and confidential, protect it from viewing by others, and treat the Manuals with the same degree of care as it would treat its most highly confidential documents. Franchisee shall not at any time copy, duplicate, record, or otherwise reproduce the foregoing materials, in whole or in part, nor otherwise make the same available to any unauthorized person.

7.3 Protection of the Manuals. The Manuals shall at all times remain the sole property of Franchisor and shall at all times be kept in a secure place on the Restaurant premises. Franchisee shall ensure that the Manuals are kept current and up to date; and, in the event of any dispute as to the contents of the Manuals, the terms of the master copy of the Manuals maintained by Franchisor at Franchisor's home office shall be controlling.

7.4 Revisions to the Manuals. Franchisor may from time to time revise the contents of the Manuals, and Franchisee expressly agrees to make corresponding revisions to its copy of the Manuals and to comply with each new or changed standard immediately upon receipt of such revision.

8. CONFIDENTIAL INFORMATION

8.1 Confidential Information. Franchisee understands and agrees that he/she will come into possession of certain of Franchisor's trade secrets concerning the manner in which it conducts business including, but not necessarily limited to: recipes and formulas; methods of doing business or business processes; strategic business plans; customer lists and information; marketing and promotional campaigns; software; and Franchisor's materials clearly marked or labeled as trade secrets. Franchisee agrees that the foregoing information, which may or may not be considered "trade secrets" under prevailing judicial interpretations or statutes, is private, valuable, and constitutes trade secrets belonging to Franchisor. Franchisee agrees that Franchisor derives independent economic value from the foregoing information not being generally known to, and not being readily ascertainable through proper means by, another person. Franchisee shall not, during the term of this Agreement or thereafter, communicate, divulge, or use for the benefit of any other person, persons, partnership, entity, association, or corporation any trade secrets, confidential information, knowledge, or know-how concerning the methods of operation of the business franchised hereunder which may be communicated to Franchisee or of which Franchisee may be apprised by virtue of Franchisee's operation under the terms of this Agreement. Franchisee shall divulge such trade secrets, confidential information, knowledge, or know-how only to such of its employees as must have access to it in order to operate the Restaurant. Any and all trade secrets, confidential information, knowledge, or know-how which Franchisor designates as confidential shall be deemed confidential for purposes of this Agreement, except information which Franchisee can demonstrate came to its attention prior to disclosure thereof by Franchisor; or which, at or after the time of disclosure by Franchisor to Franchisee, had become or later becomes a part of the public domain, through publication or communication by others. Any employee who may have access to any trade secrets, confidential information, knowledge, or know-how regarding the Restaurant shall execute a covenant that s/he will maintain the confidentiality of information they receive in connection with their association with Franchisee. Such covenants shall be on a form provided by Franchisor, which form shall, among other things, designate Franchisor as a third party beneficiary of such covenants with the independent right to enforce them. Notwithstanding any other provision of this Agreement, there may be certain, limited circumstances where applicable law allows for the disclosure of certain trade secrets, as specified in the Manuals.

8.2 Irreparable Injury. Franchisee acknowledges that any failure to comply with the requirements of this Section 8 will cause Franchisor irreparable injury, and Franchisee agrees to pay all court costs and reasonable attorney's fees incurred by Franchisor in obtaining specific performance of, or an injunction against violation of, the requirements of this Section 8.

8.3 Information Exchange. Franchisee agrees to disclose to Franchisor all ideas, concepts, methods, techniques and products conceived or developed by Franchisee, its affiliates, owners, agents, or employees during the term of this Agreement relating to the development and/or operation of the Restaurants. Franchisee hereby grants to Franchisor and agrees to procure from its affiliates, owners, agents, or employees a perpetual, non-exclusive, and worldwide right to use any such ideas, concepts, methods, techniques and products in all food service businesses operated by Franchisor or its affiliates, franchisees and designees. Franchisor shall have no obligation to make any payments to Franchisee with respect to any such ideas, concepts, methods, techniques or products. Franchisee agrees that Franchisee will not use or allow any other person or entity to use any such concept, method, technique or product without obtaining Franchisor's prior written approval.

9. ACCOUNTING AND RECORDS

9.1 Records. With respect to the operation and financial condition of the Restaurant, Franchisee shall adopt, until otherwise specified by Franchisor, a fiscal year consisting of twelve (12) months, which coincides with Franchisor's then-current fiscal year, as specified by Franchisor. Franchisee shall maintain for a period of not less than three (3) years during the term of this Agreement, and, for not less than three (3) years following the termination, expiration, or non-renewal of this Agreement, full, complete, and accurate books, records, and accounts in accordance with generally accepted accounting principles, as required by law, and in the form and manner prescribed by Franchisor from time to time in the Manuals or otherwise in writing. Franchisee shall prepare and maintain all books and records required under this Agreement and as prescribed by Franchisor during each fiscal year during the Term of this Agreement and for the three years prior to each fiscal year. To the extent books and records are created and/or maintained in an electronic form, all such books and records must be capable of being reviewed by Franchisor or its designee without special hardware or software.

9.2 Periodic Reports. Franchisee shall, at its expense, provide to Franchisor, in a format specified by Franchisor, monthly, quarterly, and annual financial and operating reports. Without limiting the foregoing, Franchisee shall provide or comply with the following:

9.2.1 Franchisee shall provide to Franchisor, by no later than February 15 each year an annual report for the preceding year that shall be a complete annual financial statement (prepared according to generally accepted accounting principles, that includes a fiscal year-end balance sheet, an income statement of the Restaurant for such fiscal year reflecting all year-end adjustments, and a statement of changes in cash flow of Franchisee), prepared by an independent certified public accountant satisfactory to Franchisor, or an accounting service approved by Franchisor if such person, company or service, along with an officer and the Principal Operator of Franchisee, certifies as to its accuracy, showing the results of operations of the Restaurant during the most recently completed fiscal year.

9.2.2 No later than the twentieth (20th) day of each month during the term of this Agreement after the opening of the Restaurant, Franchisee shall submit to Franchisor, in a format acceptable to (or, at Franchisor's election, specified by) Franchisor, as amended from time to time: (i) a monthly operating statement for the Restaurant; and (ii) reports of those income and expense items of the Restaurant which Franchisor specifies from time to time for use in any revenue, earnings, and/or cost summary it chooses to furnish to prospective franchisees, provided that Franchisor will not identify to prospective franchisees any specific financial results of the Restaurant. Franchisee shall also certify to Franchisor that Franchisee has accurately and timely filed all state and local sales tax returns for the Restaurant, and provide copies to Franchisor, or access to relevant online records, if and when requested by Franchisor.

9.2.3 If Franchisee (and/or any affiliate of Franchisee) operates two (2) or more Restaurants, pursuant to separate franchise agreements, then at its expense, Franchisee shall also furnish to Franchisor, no later than February 15th each year for the preceding fiscal year of the Restaurant during the term hereof, an Administrative P&L. The term "**Administrative P&L**" is understood to mean a profit and loss statement, and such additional financial information in such detail as Franchisor may reasonably require, relating to the expenses Franchisee (and/or its affiliates) incurred with respect to the management of its operations (including without limitation Restaurant management) during said fiscal year, and such Administrative P&L shall be prepared on a review basis by an independent certified public accountant satisfactory to Franchisor.

9.3 Reporting Requirements. Franchisee shall also submit to Franchisor in addition to the Sales Reports required pursuant to Section 4.2, for review or auditing, such other forms, reports, records, information, and data as and when Franchisor may reasonably designate, in the form and format, and at the times and places reasonably required by Franchisor, upon request and as specified from time to time in the Manuals or otherwise in writing, including, without limitation, via computer diskette, or otherwise in electronic format, and/or restated in accordance with Franchisor's financial reporting periods, consistent with Franchisor's then current financial reporting periods and accounting practices and standards. The reporting requirements of this Section 9.3 shall be in addition to, and not in lieu of, the electronic reporting that may be required in connection with the use of the required Computer System under Section 5.15 above.

9.4 Audit. Franchisor or its designated agents shall have the right at all reasonable times to examine, copy, and/or personally review or audit, at Franchisor's expense, all books, records, and sales and income tax returns of Franchisee. Franchisee shall cooperate fully with all audits and requests for information made by Franchisor or its designees. Franchisor shall also have the right, at any time, to have an independent audit made of the books of Franchisee. If an inspection should reveal that any payments have been understated in any report to Franchisor, then Franchisee shall immediately pay Franchisor the amount understated upon demand, in addition to interest from the date such amount was due until paid, at the rate of one and one-half percent (1.5%) per month, or the maximum rate permitted by law, whichever is less. If an inspection is necessitated because Franchisee fails to timely provide Sales Reports or if an inspection discloses an understatement in any report by Franchisee of two percent (2%) or more, Franchisee shall, in addition, reimburse Franchisor for any and all costs and expenses connected with the inspection (including, without limitation, travel, lodging and wages expenses, and reasonable accounting and legal costs). The foregoing remedies shall be in addition to any other remedies Franchisor may have.

9.5 Data. All data provided by Franchisee in any form, and whether required by this Section 9 or any other requirement under the System or in the Manuals, including data uploaded to Franchisor's computer system from the Franchisee's Computer System, and/or downloaded from the Franchisee's Computer System to Franchisor's computer system, is and will be owned exclusively by Franchisor, including without limitation, Customer Data (described in Section 5.16 above), customer lists and e-mail lists, and Franchisor will have the right to use such data in any manner that Franchisor deems appropriate without compensation to Franchisee. In addition, all other data created or collected by Franchisee in connection with the System, or in connection with Franchisee's operation of the business (including but not limited to consumer and transaction data), is and will be owned exclusively by Franchisor during the term of, and following termination or expiration of, this Agreement. Copies and/or originals of such data must be provided to Franchisor upon Franchisor's request. Franchisor hereby licenses use of such data back to Franchisee, at no additional cost, solely for the term of this Agreement and solely for Franchisee's use in connection with the business franchised under this Agreement. Franchisor may use all such information, data, and reports in any manner, including, without limitation, providing financial and operating reports to franchisees and operators operating under the System, preparing franchise disclosure documents, and providing information to prospective franchisees, and/or in complying with government regulations.

9.6 Accounting and Bookkeeping Services. Franchisor reserves the right to require that Franchisee retain and utilize an accounting and bookkeeping service or company that is designated, specified or approved by Franchisor, from the Effective Date of this Agreement through the period that is ninety (90) days after the completion of Franchisee's second full calendar year of operation of the Restaurant following the opening of the business. Franchisee shall pay such service or company the fees and costs charged by the service or company, shall use such on-line, electronic, and paper reporting systems specified by such service or company, and shall submit reports to Franchisor as required under this Agreement or in the Manual. In addition, in the event Franchisee fails to comply with any reporting requirement under this Section 9 or in the Manuals, or fails to make timely, accurate and complete payments as required under this Agreement, Franchisor has the right to require that Franchisee utilize an accounting or bookkeeping service or company designated or specified by Franchisor for a period of not less than two (2) years. Franchisee will provide to the service or company complete and accurate information required by Franchisor and the service or company, and Franchisee acknowledges and agrees that Franchisor will have full access to the data and information that Franchisee provides to the accounting or bookkeeping service or company.

10. ADVERTISING

Recognizing the value of advertising, and the importance of the standardization of advertising programs to the furtherance of the goodwill and public image of the System, the parties agree as follows:

10.1 Advertising Contributions and Expenditures. Franchisee shall (a) expend such minimum amounts on local advertising and promotion as required by Franchisor under this Agreement or in the Manuals, and (b) contribute in an amount specified by Franchisor in this Agreement or in the Manuals to the CT Creative Fund and/or a Market Cooperative (defined below). Franchisee shall make such contributions and expenditures in the following allocations:

10.1.1 Franchisor may require Franchisee to contribute an amount which, in the aggregate, is equal to up to three percent (3%) of the Net Sales of the Restaurant toward the CT Creative Fund and/or Market Cooperative (the "**Advertising Contribution**"). Franchisee's Advertising Contribution shall be paid to the CT Creative Fund or to any Market Cooperative, in such proportions as may be designated by Franchisor. Currently, Franchisor requires Franchisee to contribute two percent (2%) of the Net Sales of the Restaurant toward the CT Creative Fund. Franchisor may change the proportion of this allocation at any time upon written notice to Franchisee. Franchisee shall contribute the specified Advertising Contribution each Week based on the Net Sales of the Restaurant for the previous week. The Advertising Contribution shall be paid by Franchisee in the manner required under Section 4.2 above.

10.1.2 For all company-owned Restaurants, Franchisor shall contribute to the CT Creative Fund and/or Market Cooperative on the same basis as franchisees.

10.1.3 In addition to the Advertising Contribution, Franchisee shall expend an amount equal to at least ten thousand dollars ($10,000) toward local advertising and promotion ("**Minimum Local Advertising Expenditure**"). If Franchisee fails to spend the Minimum Local Advertising Expenditure, Franchisor may require Franchisee to contribute any unspent amount to the CT Creative Fund. Franchisor may send Franchisee a written notice of any shortfall or under expenditure of the Minimum Local Advertising Expenditure at any time following the end of a calendar year, and Franchisee shall pay such amount to Franchisor within thirty (30) days of such notice, or Franchisor may withdraw such amount from Franchisee's bank account in accordance with Section 4.2.3.

10.1.4 The Advertising Contribution and Minimum Local Advertising Expenditure shall be in addition to any advertising, marketing, or promotional payments, contributions, or actions required under Franchisee's lease for the Restaurant.

10.2 CT Creative Fund. Franchisor shall have the right to establish, at any time, the CT Creative Fund and/or a Market Cooperative, as described in this Section 10. The CT Creative Fund shall be maintained and administered by Franchisor or its designee, as follows:

10.2.1 Franchisor or its designee shall have the right to direct all advertising programs, as well as all aspects thereof, including without limitation, the concepts, materials, and media used in such programs and the placement and allocation thereof. Franchisee agrees and acknowledges that the CT Creative Fund is intended to maximize general public recognition, acceptance, perception of, and use of the System; and that Franchisor and its designee are not obligated, in administering the CT Creative Fund, to make expenditures for Franchisee which are equivalent or proportionate to Franchisee's contribution, or to ensure that any particular franchisee benefits directly or pro rata from expenditures by the CT Creative Fund.

10.2.2 The CT Creative Fund, all contributions thereto, and any earnings thereon, shall be used exclusively (except as otherwise provided in this Section 10.2) to meet any and all costs of maintaining, administering, directing, conducting, creating and/or otherwise preparing advertising, marketing, public relations and/or promotional programs and materials, and any other activities which Franchisor believes will enhance the image of the System, including, without limitation, the costs of preparing and/or conducting: media advertising campaigns; social media campaigns; direct mail advertising; marketing surveys and other public relations activities; employing advertising and/or public relations agencies to assist therein; brand research and development; developing and hosting marketing, brand development and enhancement, and customer engagement seminars for franchisees; purchasing promotional items; creating menu boards; developing new or modified trade dress and marks; point-of-purchase (POP) materials; design and photographs; conducting and administering visual merchandising, and other merchandising programs; purchasing media space or time (including all associated fees and expenses); administering regional and multi-regional marketing and advertising programs; market research and customer satisfaction surveys; developing and implementing customer loyalty and gift card programs; customer retention programs; the creative development of, and actual production associated with, premium items, giveaways, promotions, contests, public relation events, and charitable or non-profit events; developing, implementing and maintaining an electronic commerce website and/or related strategies; maintaining and developing one or more websites devoted to the System, the Proprietary Marks and/or the "California Tortilla" brand; providing promotional and other marketing materials and services to the Restaurants operated under the System; and the salaries of Franchisor's employees to the extent such employees provide services in conjunction with System marketing activities. The CT Creative Fund may also be used to provide rebates or reimbursements to franchisees for local expenditures on products, services, or improvements, approved in advance by Franchisor, which products, services, or improvements Franchisor shall have the right to determine will promote general public awareness and favorable support for the System.

10.2.3 Franchisee shall contribute to the CT Creative Fund in the manner specified in Section 4.2 above. All sums paid by Franchisee to the CT Creative Fund shall be maintained in an account separate from Franchisor's other monies. Franchisor shall have the right to charge the CT Creative Fund for such reasonable administrative costs and overhead as Franchisor may incur in activities reasonably related to the direction and implementation of the CT Creative Fund and advertising programs for franchisees and the System, including, without limitation, costs of personnel for creating and implementing, advertising, merchandising, promotional and marketing programs and accounting services reasonably related to the operation and functions of the CT Creative Fund. The CT Creative Fund and its earnings shall not otherwise inure to the benefit of Franchisor. Franchisor or its designee shall maintain separate bookkeeping accounts for the CT Creative Fund.

10.2.4 The CT Creative Fund is not intended to be, and will not be used for, ordinary operating expenses intend to be, nor is it a trust, and Franchisor does not assume any fiduciary obligation to Franchisee for maintaining, directing or administering the CT Creative Fund or for any other reason. A statement of the operations of the CT Creative Fund as shown on the books of Franchisor shall be prepared annually by Franchisor and shall be made available to Franchisee on an annual basis.

10.2.5 Although the CT Creative Fund is intended to be of perpetual duration, Franchisor maintains the right to terminate the CT Creative Fund. The CT Creative Fund shall not be terminated, however, until all monies in the CT Creative Fund have been expended for advertising and/or promotional purposes.

10.3 Market Cooperative. Franchisor shall have the right to designate any geographical area for purposes of establishing a market advertising and promotional cooperative fund ("**Market Cooperative**"), and shall have the right to designate the amount that Franchisee shall contribute to the Market Cooperative, subject to the maximum Advertising Contribution. If a Market Cooperative for the geographic area in which the Restaurant is located has been established at the time Franchisee commences operations hereunder, Franchisee shall immediately become a member of such Market Cooperative, unless otherwise permitted by Franchisor. If a Market Cooperative for the geographic area in which the Restaurant is located is established during the term of this Agreement, Franchisee shall become a member of such Market Cooperative within thirty (30) days after the date on which the Market Cooperative commences operation, unless otherwise permitted by Franchisor. In no event shall Franchisee be required to be a member of more than one (1) Market Cooperative. The following provisions shall apply to each such Market Cooperative:

10.3.1 Each Market Cooperative shall be organized (including but not limited to bylaws and other organic documents) and governed in a form and manner, and shall commence operations on a date, approved in advance by Franchisor in writing. Unless otherwise specified by Franchisor, the activities carried on by each Market Cooperative shall be decided by a majority vote of its members. Any Restaurants that Franchisor operates in the region shall have the same voting rights as those owned by its franchisees. Each Restaurant owner shall be entitled to cast one (1) vote for each Restaurant owned.

10.3.2 Each Market Cooperative shall be organized for the exclusive purpose of administering regional advertising programs and developing, subject to Franchisor's approval, standardized promotional materials for use by the members in local advertising and promotion.

10.3.3 No advertising or promotional plans or materials may be used by a Market Cooperative or furnished to its members without the prior approval of Franchisor, pursuant to the procedures and terms as set forth in Section 10.7 below.

10.3.4 Franchisee shall submit its required contribution to the Market Cooperative at the time required under Section 4.2.3 above, together with such statements or reports as may be required by Franchisor or by the Market Cooperative with Franchisor's prior written approval. If so requested by Franchisor in writing, Franchisee shall submit its payments and reports to the Market Cooperative directly to Franchisor for distribution to the Market Cooperative.

10.3.5 Although once established, each Market Cooperative is intended to be of perpetual duration, Franchisor maintains the right to terminate any Market Cooperative. A Market Cooperative shall not be terminated, however, until all monies in that Market Cooperative have been expended for advertising and/or promotional purposes.

10.4 Local Advertising and Promotion. All local advertising and promotion by Franchisee shall be in such media, and of such type and format as Franchisor may approve; shall be conducted in a dignified manner; shall conform to such standards and requirements as Franchisor may specify; and shall comply with all applicable laws. Franchisee shall not use any advertising or promotional plans or materials unless and until Franchisee has received written approval from Franchisor, pursuant to the procedures and terms set forth in Section 10.7 below. Franchisee shall comply with all of Franchisor's written instructions, policies, procedures, and restrictions regarding advertising and marketing within Franchisee's Territory, outside of Franchisee's Territory, and in areas that may be territories assigned to other California Tortilla restaurants or franchisees (including, without limitation, rules regarding honoring of gift certificates, stored value cards, and promotions).

10.5 Costs of Local Advertising and Promotion. As used in this Agreement, the term "**local advertising and promotion**" shall consist only of the direct costs of purchasing and producing advertising materials (including, but not limited to, camera-ready advertising and point of sale materials), media (space or time), and those direct out-of-pocket expenses related to costs of advertising and sales promotion spent by Franchisee in its local market or area, advertising agency fees and expenses, postage, shipping, telephone, and photocopying; however, the parties expressly agree that advertising and sales promotion shall not include costs or expenses incurred by or on behalf of Franchisee in connection with any of the following:

10.5.1 Salaries and expenses of any employees of Franchisee, including salaries or expenses for attendance at advertising meetings or activities, or incentives provided or offered to such employees, including discount coupons;

10.5.2 Charitable, political, or other contributions or donations, whether in cash, food, or services;

10.5.3 The value of discounts provided to customers;

10.5.4 The cost of food items.

10.6 Promotional Materials and Marketing Assistance. Franchisor shall make available to Franchisee from time to time, at Franchisee's expense, advertising plans and promotional materials, including newspaper mats, coupons, merchandising materials, sales aids, point-of-purchase materials, special promotions, direct mail materials, community relations programs, and similar advertising and promotional materials for use in local advertising and promotion. Franchisor may provide periodic marketing assistance to Franchisee, including, among other things, Franchisee meetings with Franchisor's marketing team, telephone and email marketing "hotline" assistance, and templates or other materials for email-based marketing.

10.7 Approvals. For all proposed advertising, marketing, and promotional plans, Franchisee shall submit samples of such plans and materials to Franchisor (by means described in Section 20 below), for Franchisor's review and prior written approval (except with respect to prices to be charged by Franchisee). If written approval is not received by Franchisee from Franchisor within ten (10) days of the date of receipt by Franchisor of such samples or materials, Franchisor shall be deemed to have approved them. Franchisee acknowledges and agrees that any and all copyright in and to advertising and promotional materials developed by or on behalf of Franchisee shall be the sole property of Franchisor, and Franchisee agrees to execute such documents (and, if necessary, require its independent contractors to execute such documents) as may be deemed reasonably necessary by Franchisor to give effect to this provision.

10.8 Grand Opening Advertising Program. In addition to and not in lieu of the Advertising Contribution, the Minimum Local Advertising Expenditure, and any expenditures for local advertising and promotion, Franchisor may require Franchisee to spend up to Ten Thousand Dollars ($10,000) for grand opening advertising and promotional programs in conjunction with the Restaurant's initial grand opening, pursuant to a grand opening marketing plan which Franchisor and Franchisee will collaborate and agree upon (the "**Grand Opening Advertising Program**"). Franchisee must have its Grand Opening Advertising Program in place, with funds committed to the program, prior to and as a pre-condition to opening the Restaurant. Franchisor reserves the right to require that Franchisee to pay to Franchisor the required and agreed upon Grand Opening Advertising Program amount ("**Grand Opening Advertising Fee**") at a time that is sufficiently in advance of the scheduled opening to implement the Grand Opening Advertising Program. If Franchisor requires that Franchisee pay the Grand Opening Advertising Fee to Franchisor, Franchisor will use the Grand Opening Advertising Fee to develop and implement the Grand Opening Advertising Program for Franchisee's Restaurant. The Grand Opening Advertising Program may commence prior to opening the Restaurant and shall be completed within sixty (60) days after the Restaurant commences operation. If Franchisor spends additional amounts on advertising as part of the Grand Opening Advertising Program, in amounts that Franchisor and Franchisee agree are part of the Grand Opening Advertising Program, Franchisee must reimburse Franchisor for the additional costs within fifteen (15) days after the receipt of notice from Franchisor. Franchisee may spend such additional sums as Franchisee deems necessary or appropriate in connection with the opening of Franchisee's Restaurant. Franchisee shall submit to Franchisor, for Franchisor's prior written approval, a marketing plan and samples of all advertising and promotional material not prepared or previously approved by Franchisor. For the purpose of this Agreement, the Grand Opening Advertising Program shall be considered local advertising and promotion, as provided under Section 10.4 above.

10.9 Minimum Requirements Only. Franchisee understands and acknowledges that the required contributions and expenditures are minimum requirements only, and that Franchisee may, and is encouraged by Franchisor to, expend additional funds for local advertising and promotion of a local nature which will focus on disseminating advertising directly related to Franchisee's Restaurant.

10.10 Websites and Social Media. Any Website or webpage on a Website shall be deemed "advertising" under this Agreement, and will be subject to (among other things) to Franchisor's rules and approvals under Sections 5.18 and 10.7 above. Franchisor may from time to time establish policies regarding social media as Franchisor determines appropriate for the System. Any use of social media using the Marks is considered advertising, and Franchisee must comply with Franchisor's social media and advertising policies, including approval requirements. Franchisor may modify these policies as it determines to be appropriate, including as available technologies and advertising methods change.

10.11 Promotional Programs. Franchisee acknowledges that periodic rebates, giveaways and other promotions and programs (including, without limitation, promotional calendar events and Franchisor's e-mail newsletters and other customer communications) are an integral part of the System. Accordingly, Franchisee, at its sole cost and expense, from time to time shall issue and offer such rebates, giveaways and promotions in accordance with any reasonable advertising programs established by Franchisor, and further shall honor rebates, giveaways and other promotions, issued by other franchisees and approved by Franchisor, as long as all of the above do not contravene regulations and laws of appropriate governmental authorities.

10.12 Limitations on Associations with the Proprietary Marks. Franchisee acknowledges and agrees that certain associations between Franchisee and/or the Restaurant, and/or the Proprietary Marks and/or the System, and/or businesses operating under or products sold under the Proprietary Marks or the California Tortilla brand names on the one hand, and certain political, religious, cultural or other types of groups, organizations, causes, or activities, on the other, however well-intentioned and/or legal, may create an unwelcome, unfair, or unpopular association with, and/or an adverse effect on, the reputation of Franchisor, the System, the California Tortilla brand, or the good will associated with the Proprietary Marks. Accordingly, Franchisee shall not, without the prior written approval of Franchisor, engage in any activities with, or donate any money, products, services, goods, or other items to, any charitable, political or religious organization, group, or activity, if such action is taken, or may be perceived by the public to be taken, in the name of, in connection with, or in association with Franchisee, the Proprietary Marks, the Restaurant, the Franchisor, or the System.

11. INSURANCE

11.1 Insurance Requirements. Prior to the commencement of any activities or operations pursuant to this Agreement, Franchisee shall procure and maintain in full force and effect during the term of this Agreement (and for such period thereafter as is necessary to provide the coverages required hereunder for events having occurred during the Term of this Agreement), at Franchisee's expense, the following insurance policy or policies in connection with the Restaurant or other facilities on premises, or by reason of the construction, operation, or occupancy of the Restaurant or other facilities on premises. Such policy or policies shall be written by an insurance company or companies approved by Franchisor, having a rating of at least "A" in the most recent Key Rating Guide published by the A.M. Best Company (or another rating that Franchisor reasonably designates if A.M. Best Company no longer publishes the Key Rating Guide) and licensed to do business in the state in which the Restaurant is located. Such policy or policies shall include, at a minimum (except as additional coverages and higher policy limits may reasonably be specified for all franchisees from time to time by Franchisor in the Manuals or otherwise in writing to reflect inflation, identification of new risks, changes in the law or standards of liability, higher damage awards and other relevant changes in circumstances), the following:

11.1.1 Comprehensive general liability insurance, written on an occurrence basis, extended to include contractual liability, products and completed operations, and personal and advertising injury, with a combined bodily injury and property damage limit of not less than One Million Dollars ($1,000,000) per occurrence.

11.1.2 Business automobile liability insurance, including a combined single bodily injury and property damage coverage for all owned, non-owned, and hired vehicles, with limits of liability not less than One Million Dollars ($1,000,000) per occurrence for both bodily injury and property damage.

11.1.3 Statutory workers' compensation insurance and employer's liability insurance for a minimum limit of at least One Million Dollars ($1,000,000), as well as such other disability benefits type insurance as may be required by statute or rule of the state in which the Restaurant is located. Franchisee shall have and maintain such insurance for all of its employees prior to any employee commencing any training with Franchisor. Franchisee agrees to obtain a waiver of subrogation endorsement on its workers' compensation policy, and shall provide to Franchisor proof of both (i) the effective workers' compensation policy, and (ii) the endorsement to such policy waiving the insurer's right of subrogation.

11.1.4 Commercial umbrella liability insurance with limits which bring the total of all primary underlying coverages to not less than Three Million Dollars ($3,000,000) total limit of liability.

11.1.5 Property insurance providing coverage for direct physical loss or damage to real and personal property for all-risk perils, including the perils of flood and earthquake.

11.1.6 Products liability insurance in an amount not less than One Million Dollars ($1,000,000), which policy shall be considered primary.

11.1.7 Any other insurance coverage that is required by federal, state, or municipal law.

11.2 Referenced in Manuals. All policies listed in Section 11.1 above (unless otherwise noted below) shall contain such endorsements as shall, from time to time, be provided in the Manuals.

11.3 Policy Cancellation. In the event of cancellation, material change, or non-renewal of any policy, sixty (60) days' advance written notice must be provided to Franchisor in the manner provided in Section 20 below. Franchisee shall arrange for a copy of such notification to be sent to Franchisor by the insurance company.

11.4 Construction and Remodeling Insurance. In connection with all significant construction, reconstruction, or remodeling of the Restaurant during the term of this Agreement, Franchisee will cause the general contractor, its subcontractors, and any other contractor, to effect and maintain at general contractor's and all other contractor's own expense, such insurance policies and bonds with such endorsements as are set forth in the Manuals, all written by insurance or bonding companies approved by Franchisor, having a rating as set forth in Section 11.1 above.

11.5 No Waiver of Obligations. Franchisee's obligation to obtain and maintain the foregoing policy or policies in the amounts specified shall not be limited in any way by reason of any insurance which may be maintained by Franchisor, nor shall Franchisee's performance of that obligation relieve it of liability under the indemnity provisions set forth in Section 17.4 below.

11.6 Franchisor to be Additional Named Insured. All insurance policies shall list Franchisor and its affiliates, and their respective officers, directors, employees, partners, members, subsidiaries, employees and agents as additional named insureds, and shall also contain a provision that Franchisor, although named as an insured, shall nevertheless be entitled to recover under said policies on any loss occasioned to Franchisor or its servants, agents, or employees by reason of the negligence of Franchisee or its servants, agents, or employees. Additional insured status shall include, without limitation, coverage for ongoing and completed operations. The additional insured endorsement form shall be ISO CG 20-26 or any other form that Franchisor approves in writing that provides comparable coverage. Additional insured coverage shall not be limited to vicarious liability and shall extend to (and there shall be no endorsement limiting coverage for) Franchisor's negligent acts, errors or omissions or other additional insureds. Franchisee shall maintain such additional insured status for Franchisor on Franchisee's general liability policies continuously during the term of the Franchise Agreement.

11.7 Evidence of Insurance. At least thirty (30) days prior to the time any insurance is first required to be carried by Franchisee, and thereafter at least thirty (30) days prior to the expiration of any such policy, Franchisee shall deliver to Franchisor, certificates of insurance, endorsements, insurance declarations and/or other documents requested by Franchisor (collectively, "**certificates**"), evidencing the proper coverage with limits not less than those required hereunder. All certificates shall expressly provide that no less than thirty (30) days' prior written notice shall be given Franchisor in the event of material alteration to, cancellation, or non-renewal of the coverages evidenced by such certificates. Further certificates evidencing the insurance required by Section 11.1 above shall name Franchisor, and each of its affiliates, directors, agents, and employees as additional insureds, and shall expressly provide that any interest of same therein shall not be affected by any breach by Franchisee of any policy provisions for which such certificates evidence coverage. In the event that Franchisee fails to obtain the required insurance or to provide evidence reasonably satisfactory to Franchisor of the insurance policies required by this Section 11, Franchisor shall obtain such required policies on Franchisee's behalf, and Franchisee agrees that it will promptly reimburse Franchisor for all costs related to obtaining such policies upon notice from Franchisor.

11.8 Proof of Insurance. In addition to its obligations under Section 11.7 above, on the first (1st) anniversary of the Effective Date, and on each subsequent anniversary thereof during the term of this Agreement and any renewal hereof, Franchisee shall provide Franchisor with proof of insurance evidencing the proper coverage with limits not less than those required hereunder, in such form as Franchisor may reasonably require.

11.9 Policy Limit Changes. Franchisor shall have the right, from time to time, to make such changes in minimum policy limits and endorsements as it may determine; provided, however, all changes shall apply, generally, to all franchisees of Franchisor who are similarly situated.

11.10 Franchisor's Insurance. Franchisee acknowledges and agrees that any insurance policies maintained by Franchisor for Franchisor's benefit shall have no effect upon Franchisee's obligation to obtain any insurance required by this Section 11.

12. TRANSFER OF INTEREST

12.1 Franchisor Transfers. Franchisor shall have the right to transfer or assign this Agreement and all or any part of its rights or obligations under this Agreement, or any interests in the assets of Franchisor, or any ownership or equity interests in Franchisor, to any person or legal entity, and any assignee of Franchisor shall become solely responsible for all obligations of Franchisor under this Agreement from the date of assignment.

12.2 Principals. If Franchisee is a corporation, limited liability company, partnership, or limited liability partnership, each Principal (as defined in Section 5.28.4 above), and the interest of each Principal in Franchisee, is identified in Exhibit D hereto. Franchisee represents and warrants that its Principals are as set forth on Exhibit D attached to this Agreement, and covenants that it will not permit the identity of such owners, or their respective interests in Franchisee, to change without complying with this Agreement. Franchisor shall have the right to designate any person or entity which owns a direct or indirect interest in Franchisee as a Principal, and Exhibit D shall be so amended automatically upon notice thereof to Franchisee. Throughout the term of this Agreement, Franchisor shall have a continuing right to designate as a "Principal" any person or entity that owns a direct or indirect interest in Franchisee.

12.3 Franchisee Transfers. Franchisee understands and acknowledges that the rights and duties set forth in this Agreement are personal to Franchisee, and that Franchisor has granted this franchise in reliance on Franchisee's or Franchisee's Principals' business skill, financial capacity, and personal character. Accordingly:

12.3.1 Franchisee shall not, without the prior written consent of Franchisor, transfer, pledge or otherwise encumber: (a) this Agreement or any of the rights and obligations of Franchisee under this Agreement; (b) any material asset of Franchisee or the Restaurant; (c) the lease or any other interest in the Designated Location; or (d) any ownership interests in Franchisee; provided, however, that Franchisee may grant a security interest in, or otherwise encumber certain assets of the Restaurant, excluding the Franchise Agreement, in connection with Franchisee obtaining financing for the development and/or operation of the Restaurant or equipment leasing, if such financing satisfies the requirements of Franchisor, which may include, without limitation, execution of agreements by Franchisor, Franchisee, and/or such Principal, and any secured creditor of Franchisee, in a form satisfactory to Franchisor, acknowledging such creditor's obligations to be bound by the terms of this Section 12.

12.3.2 If Franchisee is a corporation or limited liability company, Franchisee shall not, without the prior written consent of Franchisor, issue any voting securities or securities convertible into voting securities, and the recipient of any such securities shall become a Principal under this Agreement, if so designated by Franchisor.

12.3.3 If Franchisee is a partnership or limited partnership, the partners of the partnership shall not, without the prior written consent of Franchisor, admit additional general partners, remove a general partner, or otherwise materially alter the powers of any general partner. Each general partner shall automatically be deemed a Principal of Franchisee.

12.3.4 A Principal shall not, without the prior written consent of Franchisor, transfer, pledge or otherwise encumber any interest of a Principal in Franchisee as shown in Exhibit D.

12.3.5 Franchisee shall not transfer or assign its lease for the Designated Location to, or permit a default or surrender of the lease that will or may cause the Designated Location to be owned, leased, or operated by, any person or entity that will not operate a California Tortilla Restaurant at the Designated Location, without the prior written consent of Franchisor.

12.4 Conditions for Approval. Franchisor shall not unreasonably withhold any consent required by Section 12.3 above; provided, that if Franchisee proposes to transfer its obligations hereunder or any interest in any material asset, or if Franchisee or a Principal proposes to transfer any direct or indirect interest in Franchisee, or if Franchisee or any Principal proposes to undertake any transfer that is subject to Section 12.3, Franchisor shall have the right to require any or all of the following as conditions of its approval:

12.4.1 Franchisee shall comply with Franchisor's then-current transfer policies. Franchisee and the proposed transferee shall provide Franchisor with all information and documents requested by Franchisor for Franchisor's evaluation of the proposed transfer, transaction, and transferee, including, without limitation, the business and financial terms of the proposed transaction including the lease and/or any assignments, renewal or extension of the lease and any necessary landlord consents, financial and operational information regarding the proposed transferee, and evidence of any financing that may be required to complete the transaction and/or fund the transferee's operation after the transfer.

12.4.2 The transferor shall have executed a general release (which shall include a release from the transferor, Franchisee, and all former and current owners, Principals, and guarantors of Franchisee), in a form satisfactory to Franchisor, of any and all claims against Franchisor and its affiliates, successors, and assigns, and their respective directors, officers, shareholders, partners, agents, representatives, servants, and employees in their corporate and individual capacities including, without limitation, claims arising under this Agreement, any other agreement between Franchisee and Franchisor or its affiliates, and federal, state, and local laws and rules.

12.4.3 The transferee of a Principal shall be designated as a Principal and each transferee who is designated a Principal shall enter into a written agreement, in a form satisfactory to Franchisor, agreeing to be bound as a Principal under the terms of this Agreement as long as such person or entity owns any interest in Franchisee; and, if the obligations of Franchisee were guaranteed by the transferor, the Principal shall guarantee the performance of all such obligations in writing in a form satisfactory to Franchisor.

12.4.4 Prior to, and after the transfer, Franchisee's new Principals shall meet Franchisor's educational, managerial, and business standards; each shall possess a good moral character, business reputation, and credit rating; have the aptitude and ability to operate the Restaurant, as may be evidenced by prior related business experience or otherwise; Franchisee's Principal Operator, and such other Principals and employees as specified by Franchisor, shall satisfactorily complete Franchisor's initial training program; and have adequate financial resources and capital to operate the Restaurant. The price, consideration, and other proposed terms of the proposed transfer must not, in Franchisor's reasonable business judgment, have the effect of negatively impacting the future viability of the Franchised Business or the Restaurant.

12.4.5 If a proposed transfer would result in a change in control of Franchisee, at Franchisor's option, Franchisee (or transferee) shall execute the form of franchise agreement then being offered to new System franchisees, and such other ancillary agreements required by Franchisor for the business franchised hereunder, which agreements shall supersede this Agreement and its ancillary documents in all respects, and the terms of which may differ from the terms of this Agreement including, without limitation, a higher royalty and advertising fee, and a different or modified Territory. The transferee Franchisee may elect to have a term for the new Franchise Agreement (a) equal to a term ending on the expiration date of this Agreement, or (b) the term under the new Franchise Agreement; provided, however, that the transferee must demonstrate that it has a lease term (with expected renewal periods), and the right to occupy the premises, which is equal to the term of the Franchise Agreement.

12.4.6 If a proposed transfer would result in a change in control of Franchisee, and if so requested by Franchisor, Franchisee, at its expense, shall upgrade the Restaurant to conform to the then-current standards and specifications of new California Tortilla Restaurants then being established in the System, and shall complete the upgrading and other requirements set forth in Section 5.10 above within the time specified by Franchisor.

12.4.7 All monetary obligations of Franchisee hereunder shall be paid in full on a current basis, and Franchisee must not be otherwise in default of any of its obligations hereunder including, without limitation, its reporting obligations.

12.4.8 The transferor shall remain liable for all of the obligations to Franchisor in connection with the Restaurant that arose prior to the effective date of the transfer, and any covenants that survive the termination or expiration of this Agreement, and shall execute any and all instruments reasonably requested by Franchisor to evidence such liability.

12.4.9 At Franchisee's expense, one (1) Principal designated by Franchisor to be a new Principal Operator and all new General Managers shall successfully complete (to Franchisor's satisfaction) all training programs required by Franchisor upon such terms and conditions as Franchisor may reasonably require (and while Franchisor will not charge a fee for attendance at such training programs, the transferee shall be responsible for the salary and all expenses of the person who attends training).

12.4.10 If a proposed transfer would result in a change in control of Franchisee, and to compensate Franchisor for Franchisor's legal, accounting, training, and other expenses incurred in connection with the transfer, Franchisee shall pay Franchisor a non-refundable transfer fee in the amount of one-half (1/2) the then-current Initial Franchise Fee (for a single unit franchise) for new franchisees under the System at the time of the transfer. The transfer fee shall be paid at the earlier of (a) when the transferee franchisee signs the new franchise agreement, or (b) when the transferee franchisee begins training. The transfer fee is non-refundable. In addition, in the event a proposed transfer is not consummated or closed, for any reason except for disapproval by Franchisor, Franchisee or the proposed transferee shall reimburse Franchisor for all of its costs and expenses incurred in connection with its evaluation of the proposed transfer, including, without limitation, attorneys' and accountants' fees, background checks, site evaluation, and training, if applicable, to the extent the portion of the transfer fee paid does not cover those costs and expenses.

12.4.11 The transferor and/or the transferring Franchisee must certify to Franchisor that the transferring Franchisee has provided to the transferee true, complete and accurate copies of Franchisee's financial information and documents regarding the operation of the Restaurant, including without limitation, the trailing two years of financial statements and monthly cash reports, the lease for the Restaurant premises, material contracts, and such other information as may be specified by Franchisor.

12.4.12 Franchisee and its Principals agree in writing to provide the transferee, at Franchisee's expense, with transition assistance of the type, nature and scope as may be specified by Franchisor, to commence on the effective date of the transfer of ownership or operations, and continuing for up to two (2) weeks, at forty (40) person hours per week. This requirement may be waived, in whole or in part, by Franchisor, depending on the circumstances and the parties.

12.4.13 The transferor must acknowledge and agree that the transferor shall remain bound by the covenants contained in Sections 15.2 and 15.3 below.

12.4.14 Any purchase and sale agreement between the transferor and transferee shall provide for and require that the Restaurant shall continue to operate without interruption during the transfer.

12.4.15 Franchisor may expand upon, and provide more details related to, the conditions for transfer and Franchisor's consent as described in this Section 12.4, and may do so in the Manuals or otherwise in writing. Franchisor may, but is not obligated to, provide the additional details regarding the transfer conditions and Franchisor's consent to Franchisee.

12.5 Transfers to Entities for the Convenience of Ownership. If Franchisee desires to transfers all of its interest in this Agreement, or if all of the Principals of Franchisee desire to transfer all of their ownership interests in Franchisee, to a corporation, limited liability company, or other entity, solely for the convenience of ownership and/or for tax or estate planning reasons, Franchisor shall not unreasonably withhold its consent to such transfer, and Franchisor shall not require that Franchisee comply with the provisions and conditions of Section 12.4 or Section 12.6, if Franchisee complies with all of the following conditions:

12.5.1 Franchisee shall provide written notice to Franchisor not less than thirty (30) days prior to the date of the proposed transfer, and shall provide Franchisor with such documents and information as Franchisor may request in support of Franchisee's request, which may include, among other things, entity formation and good standing certifications, evidence of insurance in the name of the new franchisee entity, and bank information for the new franchisee entity.

12.5.2 Franchisee and its Principal(s) shall own all of the outstanding equity interests in the new franchisee entity, and shall own the same percentage ownership interests in the new franchisee entity as they own in Franchisee, and if Franchisee is an individual, Franchisee shall own 100% of the outstanding voting equity interests in the new franchisee entity.

12.5.3 Each Principal who owns at least twenty percent (20%) of the outstanding equity interests in the new franchisee entity shall execute a Guaranty in the form attached as Exhibit C hereto.

12.5.4 Franchisee and its Principals shall comply with the provisions of Sections 12.4.1, 12.4.2, 12.4.6, 12.4.7, and 12.4.11 of this Agreement, and the new franchisee entity and its Principal(s) shall comply with Section 5.27 of this Agreement.

12.5.5 Franchisee and its Principal(s) shall execute such transfer documents, agreements and other materials as Franchisor may require.

12.6 Right of First Refusal.

12.6.1 If Franchisee or any Principal desires to accept any *bona fide* offer from a third party to purchase Franchisee, any material assets of Franchisee, or any direct or indirect interest in Franchisee, Franchisee or such Principal shall promptly notify Franchisor of such offer and shall provide such information and documentation relating to the offer as Franchisor may require. Franchisor shall have the right and option, exercisable within thirty (30) days after receipt of all such information, to send written notice to the seller that Franchisor intends to purchase the seller's interest on the same terms and conditions offered by the third party. If Franchisor elects to purchase the seller's interest, the closing on such purchase shall occur within sixty (60) days from the date of notice to the seller of the election to purchase by Franchisor.

12.6.2 Any material change in the terms of the *bona fide* offer prior to closing shall constitute a new offer subject to the same rights of first refusal by Franchisor as in the case of the third party's initial offer. Failure of Franchisor to exercise the option afforded by this Section 12.6 shall not constitute a waiver of any other provision of this Agreement, including all of the requirements of this Section 12, with respect to a proposed transfer, or a waiver of any subsequent offer.

12.6.3 In the event the consideration, terms, and/or conditions offered by a third party are such that Franchisor may not reasonably be required to furnish the same consideration, terms, and/or conditions, then Franchisor may purchase the interest proposed to be sold for the reasonable equivalent in cash. If the parties cannot agree within a reasonable time on the reasonable equivalent in cash of the consideration, terms, and/or conditions offered by the third party, they must attempt to appoint a mutually-acceptable independent appraiser to make a binding determination. If the parties are unable to agree upon one (1) independent appraiser, then an independent appraiser shall be promptly designated by Franchisor and another independent appraiser shall be promptly designated by Franchisee, which two (2) appraisers shall, in turn, promptly designate a third appraiser; all three (3) appraisers shall promptly confer and reach a single determination, which determination shall be binding upon Franchisor and Franchisee. The cost of any such appraisal shall be shared equally by Franchisor and Franchisee. If Franchisor elects to exercise its right under this Section 12.6, Franchisor shall have the right to set off all amounts due from Franchisee, and one-half (½) of the cost of the appraisal, if any, against any payment to the seller.

12.7 Transfer Upon Death. Upon the death of a Principal, the deceased's executor, administrator, or other personal representative shall transfer the deceased's interest to a third party approved by Franchisor within twelve (12) months after the death. If the distributee is not approved by Franchisor, then the distributee shall transfer the deceased's interest to a third party approved by Franchisor within twelve (12) months after the deceased's death.

12.8 Transfer Upon Permanent Disability. Upon the permanent disability of any Principal with a controlling interest in Franchisee, Franchisor shall have the right to require such interest to be transferred to a third party in accordance with the conditions described in this Section 12 within six (6) months after notice to Franchisee, provided that no transfer fee shall be due for a transfer pursuant to this Section 12.8. "**Permanent Disability**" shall mean any physical, emotional, or mental injury, illness, or incapacity that would prevent a person from performing the obligations set forth in this Agreement for at least six (6) consecutive months and from which condition recovery within six (6) consecutive months from the date of determination of disability is unlikely. Permanent disability shall be determined by a licensed practicing physician selected by the Principal upon examination of such person or, if such person refuses to be examined, then such person shall automatically be deemed permanently disabled for the purposes of this Section 12.8 as of the date of refusal. Franchisor shall pay the cost of the required examination.

12.9 Notification Upon Death or Permanent Disability. Upon the death or permanent disability any Principal of Franchisee, such person or his representative shall promptly notify Franchisor of such death or claim of permanent disability. Any transfer upon death or permanent disability shall be subject to the same terms and conditions as any *inter vivos* transfer; provided, however, that in the event the approved third party is a relative or domestic partner of the deceased Franchisee or the deceased Principal, or of the Principal who suffered a Permanent Disability, and such person has previously completed the California Tortilla system training and has participated in the management of the Restaurant or the franchised business, Franchisor shall waive the requirement to pay a transfer fee under Section 12.4.10.

12.10 No Waiver of Claims. Franchisor's consent to a transfer which is the subject of this Section 12 shall not constitute a waiver of any claims it may have against the transferring party, nor shall it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms of this Agreement by the transferor or transferee.

12.11 Insolvency. If Franchisee or any person holding any interest (direct or indirect) in Franchisee becomes a debtor in a proceeding under the U.S. Bankruptcy Code or any similar law in the U.S. or elsewhere, it is the parties' understanding and agreement that any transfer of Franchisee, Franchisee's obligations and/or rights hereunder, any material assets of Franchisee, or any indirect or direct interest in Franchisee shall be subject to all of the terms of this Section 12, including without limitation the terms of Sections 12.3, 12.4, and 12.6 above.

12.12 Securities Offerings. All materials for an offering of stock or partnership interests in Franchisee or any affiliate of Franchisee which are required by federal or state law shall be submitted to Franchisor for review as described below before such materials are filed with any government agency. Any materials to be used in any exempt offering shall be submitted to Franchisor for such review prior to their use. No offering by Franchisee or any affiliate of Franchisee shall imply (by use of the Proprietary Marks or otherwise) that Franchisor is participating in an underwriting, issuance, or offering of the securities of Franchisee or Franchisee's affiliates; and Franchisor's review of any offering shall be limited solely to the relationship between Franchisor and Franchisee and any subsidiaries and affiliates, if applicable, and shall not constitute any opinion as to any legal requirement. Franchisor may, at its option, require the offering materials to contain a written statement prescribed by Franchisor concerning the limitations stated in the preceding sentence. Franchisee (and the offeror if not Franchisee), the Principals, and all other participants in the offering must fully indemnify Franchisor, its subsidiaries, affiliates, successor, and assigns, and their respective directors, officers, shareholders, partners, agents, representatives, servants, and employees in connection with the offering and shall execute any and all documents required by Franchisor to endorse such indemnification. For each proposed offering, Franchisee shall pay Franchisor a non-refundable fee of Five Thousand Dollars ($5,000) or such greater amount as is necessary to reimburse Franchisor for its reasonable costs and expenses (including legal and accounting fees) for reviewing the proposed offering. Franchisee shall give Franchisor written notice at least thirty (30) days before the date that any offering or other transaction described in this Section 12.12 commences. Any such offering shall be subject to all of the other provisions of this Section 12, including without limitation the terms set forth in Sections 12.3, 12.4, 12.6; and further, without limiting the foregoing, it is agreed that any such offering shall be subject to Franchisor's approval as to the structure and voting control of the offeror (and Franchisee, if Franchisee is not the offeror) after the financing is completed.

13. DEFAULT AND TERMINATION

13.1 Automatic Termination. Franchisee shall be deemed to be in default under this Agreement, and all rights granted herein shall automatically terminate without notice to Franchisee, if Franchisee shall become insolvent or makes a general assignment for the benefit of creditors; or if a petition in bankruptcy is filed by Franchisee or such a petition is filed against and not opposed by Franchisee; or if Franchisee is adjudicated a bankrupt or insolvent; or if a bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for Franchisee's business or assets is filed and consented to by Franchisee; or if a receiver or other custodian (permanent or temporary) of Franchisee's assets or property, or any part thereof, is appointed by any court of competent jurisdiction; or if proceedings for a composition with creditors under any state or federal law should be instituted by or against Franchisee; or if a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless unappealed or a supersedeas bond is filed); or if Franchisee is dissolved; or if execution is levied against Franchisee's business or property; or if suit to foreclose any lien or mortgage against the Restaurant premises or equipment is instituted against Franchisee and not dismissed within thirty (30) days; or if the real or personal property of Franchisee's Restaurant shall be sold after levy thereupon by any sheriff, marshal, or constable.

13.2 Termination Upon Notice Without Opportunity to Cure. Franchisee shall be deemed to be in default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, without affording Franchisee any opportunity to cure the default, effective immediately upon the delivery of written notice to Franchisee by Franchisor (in the manner set forth under Section 20 below), upon the occurrence of any of the following events:

13.2.1 If Franchisee fails to construct and open the Restaurant within the time limits as provided in Section 5.3 above, and within the requirements set forth in Section 5.4 above;

13.2.2 If Franchisee or its Highly Trained Personnel fail to complete the initial training program pursuant to Sections 3.1 and 5.5 of this Agreement;

13.2.3 If Franchisee at any time ceases to operate or otherwise abandons the Restaurant for three (3) consecutive business days, or loses the right to possession of the premises, or otherwise forfeits the right to do or transact business in the jurisdiction where the Restaurant is located; provided, however, that if, through no fault of Franchisee, the premises are damaged or destroyed by an event such that repairs or reconstruction cannot be completed within ninety (90) days thereafter, then Franchisee shall have thirty (30) days after such event in which to apply for Franchisor's approval to relocate and/or reconstruct the premises, which approval shall not be unreasonably withheld;

13.2.4 If Franchisee is in default under the lease or sublease for the Restaurant premises (the "**Lease**") and fails to cure the default within the time period specified in the Lease, or if the Lease is terminated, for any reason, or expires;

13.2.5 If Franchisee or any Principal is convicted of a felony, a crime involving moral turpitude, or any other crime or offense that Franchisor believes is reasonably likely to have an adverse effect on the System, the Proprietary Marks, the goodwill associated therewith, or Franchisor's interest therein;

13.2.6 If a threat or danger to public health or safety results from the construction, maintenance, or operation of the Restaurant;

13.2.7 If Franchisee or any Principal purports to transfer any rights or obligations under this Agreement or any interest to any third party in a manner that is contrary to the terms of Section 12 above;

13.2.8 If Franchisee fails to permit an inspection pursuant to Section 5.14 above or an audit pursuant to Section 9.4 above.

13.2.9 If Franchisee fails to comply with the covenants in Section 15.2 below or fails to timely obtain execution of the covenants required under Section 15.5 below;

13.2.10 If, contrary to the terms of Sections 7 or 8 above, Franchisee discloses or divulges the contents of the Manuals or other confidential information provided to Franchisee by Franchisor;

13.2.11 If Franchisee knowingly maintains false books or records, or submits any false reports (including, but not limited to, information provided as part of Franchisee's application for this franchise) to Franchisor;

13.2.12 If Franchisee fails to pay any supplier or vendor when due, and fails to cure such default within the time period specified by the supplier or vendor, or in the applicable supply contract;

13.2.13 If Franchisee fails to pay any third party, including without limitation, a lender, seller or lessor of products, services or equipment, any amount due by Franchisee to such parties on any note, financing, obligation, or financial instrument when due, and such failure to pay the full amount owed is not cured after any notice required by the contract or under applicable law.

13.2.14 If Franchisee commits three (3) or more defaults under this Agreement in any twelve (12) month period, whether or not each such default has been cured after notice;

13.2.15 If, during any twelve (12) month period of this Agreement, three (3) or more checks are returned to Franchisee for payments to Franchisor due to insufficient funds, or three (3) or more ACH payments or debit transfers are incomplete or for which Franchisee has insufficient funds, in breach of Section 4.2.3 above;

13.2.16 If Franchisee engages in any conduct or practice that is fraudulent, unfair, unethical, or a deceptive practice;

13.2.17 If Franchisee makes any unauthorized or improper use of the Proprietary Marks, or if Franchisee or a Principal of Franchisee fails to utilize the Proprietary Marks solely in the manner and for the purposes directed by Franchisor, or directly or indirectly contests the validity of Franchisor's ownership of the Proprietary Marks or its right to use and to license others to use the Proprietary Marks; and/or

13.2.18 If Franchisee or any Principal is a California Tortilla franchisee or an owner or principal of a California Tortilla franchise for another California Tortilla restaurant, and such other franchise agreement is terminated after notice of default.

13.3 Termination With Opportunity to Cure. Except as otherwise provided in Sections 13.1 and 13.2 above, upon any other default by Franchisee of its obligations hereunder, Franchisor may terminate this Agreement only by giving written notice of termination (in the manner set forth under Section 20 below) setting forth the nature of such default to Franchisee at least thirty (30) days prior to the effective date of termination (or, with respect to monetary defaults, five (5) days); provided, however, that Franchisee may avoid termination by immediately initiating a remedy to cure such default, curing it to Franchisor's satisfaction, and by promptly providing proof thereof to Franchisor, all within the thirty (30) (or five (5)) day period. If any such default is not cured within the specified time, this Agreement shall terminate without further notice to Franchisee effective immediately upon the expiration of the thirty (30) (or five (5)) day period or such longer period as applicable law may require.

13.4 Extended Notice of Termination. If any law applicable to this Section 13, or Section 2 above, requires a longer notice period prior to termination of this Agreement, or prior to a refusal to enter into a successor or renewal franchise, than is required hereunder, a different standard of "good cause", or the taking of some other action not required hereunder, the prior notice, "good cause" standard, and/or other action required by such law shall be substituted for the comparable provisions hereof.

13.5 Assignment Upon Bankruptcy. If, for any reason, the Agreement is not terminated pursuant to this Section 13, and the Agreement is assumed, or assignment of the same to any person or entity who has made a *bona fide* offer to accept an assignment of the Agreement is contemplated, pursuant to the United States Bankruptcy Code, then notice of such proposed assignment or assumption, setting forth: (i) the name and address of the proposed assignee; and (ii) all of the terms and conditions of the proposed assignment and assumption, shall be given to Franchisor within twenty (20) days after receipt of such proposed assignee's offer to accept assignment of the Agreement, and, in any event, within ten (10) days prior to the date application is made to a court of competent jurisdiction for authority and approval to enter into such assignment and assumption, and Franchisor shall thereupon have the prior right and option, to be exercised by notice given at any time prior to the effective date of such proposed assignment and assumption, to accept an assignment of the Agreement to Franchisor itself upon the same terms and conditions and for the same consideration, if any, as in the *bona fide* offer made by the proposed assignee, less any brokerage commissions which may be payable by Franchisee out of the consideration to be paid by such assignee for the assignment of the Agreement. In the event Franchisor does not elect to exercise the options described in this Section 13.5, any transfer or assignment pursuant to the United States Bankruptcy Code shall be subject to the same terms and conditions of any other transfer or assignment set forth in Section 12.

13.6 Other Remedies. If Franchisor is entitled to terminate this Agreement in accordance with Sections 13.2 or 13.3 above, Franchisor shall have the right to undertake any one or more of the following actions instead of terminating this Agreement:

13.6.1 Franchisor may terminate or modify any rights that Franchisee may have with respect to protection, "exclusivity," or quasi-exclusivity in the Territory, as granted under Section 1.2 above, effective ten (10) days after delivery of written notice thereof to Franchisee; and/or

13.6.2 Franchisor may modify, or eliminate completely, the Territory described in Section 1.2 above.

13.6.3 Franchisor may withhold from Franchisee certain benefits, plans, promotions or products that might be available to other franchisees, and/or Franchisor may not authorize Franchisee to engage in certain activities, or participate in certain meetings or events, unless and until Franchisee cures its default(s) and operates in compliance with this Agreement and Franchisor's rules, policies and standards.

13.6.4 Franchisor may refuse to grant Franchisee any additional franchises or other rights.

If any of such rights, options, arrangements, or areas are terminated or modified in accordance with this Section 13.6, such action shall be without prejudice to Franchisor's right to terminate this Agreement in accordance with Sections 13.2 or 13.3 above, and/or to terminate any other rights, options or arrangements under this Agreement at any time thereafter for the same default or as a result of any additional defaults of the terms of this Agreement.

13.7 Default Administrative Fee. In addition to, and notwithstanding the Attorneys' Fees provision in Section 23.9 hereof, in the event of Franchisee's default under Section 13, or in the event of any instance of Franchisee non-compliance with this Agreement, the Manual, or other policies and System standards, for which Franchisor notifies Franchisee of such default or non-compliance, Franchisor may require Franchisee to pay an administrative fee to Franchisor in the amount of $100 per occurrence, and $100 for each week such default or non-compliance remains uncured, plus any and all of Franchisor's costs and expenses to enforce compliance by Franchisee or to cure such default, including without limitation attorneys' fees. Such administrative fee and other charges are intended to reimburse Franchisor for its time, expense, and other expenditure of resources incurred due to Franchisee's default or non-compliance. Franchisor's decision to require Franchisee to pay such administrative fee shall be without prejudice to Franchisor's right to terminate this Agreement and/or to terminate any other rights, options or arrangements under this Agreement at any time thereafter for the same default or as a result of any additional defaults of the terms of this Agreement. Franchisor may obtain payment of such administrative fee by way of an ACH payment pursuant to Section 4.2.3.

13.8 Damages. If Franchisor is entitled to terminate this Agreement in accordance with Section 13.2 or 13.3 above, Franchisor shall also have the right to obtain actual damages from Franchisee due to the breach of the Agreement. In the event that actual damages are not easily measured or quantifiable, the parties hereto agree that Franchisor shall be entitled to damages equal to two (2) times the royalty payments due from Franchisee during the twelve (12) full months prior to termination. Notwithstanding the foregoing, in the event of termination due to (a) a breach of Section 12.3.5 or (b) Franchisee's default or termination under the lease, or (c) any other reason which results, or may result, in the ownership, lease or operation of the Designated Location as a business other than as a California Tortilla Restaurant, Franchisee and its Principals shall pay to Franchisor as damages, and not as a penalty, an amount equal to (i) the average monthly royalty payments paid or owed by Franchisee for the twelve (12) full months prior to termination, times (ii) the number of months remaining under the lease, including all potential options, extensions and renewal of the lease. The parties hereto agree that calculation of damages for many of the defaults under Sections 12.3.5, 13.2 and 13.3 will be difficult to measure and quantify, and the damages described in this Section 13.8 are a reasonable approximation of such damages, and are not a penalty.

13.9 Termination Under Lease. Franchisor and Franchisee acknowledge and agree that termination or expiration of this Franchise Agreement shall cause an immediate termination of Franchisee's Lease and shall give rise to Franchisor's right and option to acquire the Lease under Section 14.4 below. Franchisee shall cause its Lease to contain a provision giving effect to this Section 13.9.

14. OBLIGATIONS UPON TERMINATION OR EXPIRATION

Upon termination or expiration of this Agreement, all rights granted hereunder to Franchisee shall forthwith terminate, and:

14.1 Cease Operations. Franchisee shall immediately cease to operate the Restaurant, and shall not thereafter, directly or indirectly, represent to the public or hold itself out as a present or former franchisee of Franchisor.

14.2 Cease Use of Marks. Franchisee shall immediately and permanently cease to use, in any manner whatsoever, any confidential methods, procedures and techniques associated with the System, the mark "California Tortilla" and all other Proprietary Marks and distinctive forms, slogans, signs, symbols, and devices associated with the System. In particular, Franchisee shall cease to use, without limitation, all signs, advertising materials, displays, stationery, forms, and any other articles that display the Proprietary Marks.

14.3 Cancellation of Assumed Names. Franchisee shall take such action as may be necessary to cancel any assumed name or equivalent registration which contains the marks "California Tortilla" or "California Tortilla Company," and all other Proprietary Marks, and/or any other service mark or trademark of Franchisor, and Franchisee shall furnish Franchisor with evidence satisfactory to Franchisor of compliance with this obligation within five (5) days after termination or expiration of this Agreement.

14.4 Assign Lease; Modification of Premises; No Sale to Competitors. Franchisor, or any affiliate of Franchisor, including CalTort Development Corporation ("**CalTort**"), shall have the right and option, but not the obligation, in Franchisor's sole discretion, to acquire the Lease for the Restaurant, or otherwise acquire the right to occupy the premises. Franchisor may assign or delegate this right or option to CalTort, or any affiliate of Franchisor, or to any third party who is qualified to operate the Restaurant as a California Tortilla® restaurant, without notice to, or request for approval from, the landlord or lessor of the premises. If Franchisor or its assignee or delegatee does not elect or is unable to exercise any option it may have to acquire the lease or sublease for the premises of the Restaurant, or otherwise acquire the right to occupy the premises, Franchisee shall make such modifications or alterations to the premises operated hereunder (including, without limitation, the changing of the telephone number) immediately upon termination or expiration of this Agreement as may be necessary to distinguish the appearance of said premises from that of other Restaurants, and shall make such specific additional changes thereto as Franchisor may reasonably request for that purpose. In addition, Franchisee shall cease use of, and if Franchisor requests shall transfer to Franchisor, all telephone numbers, customer "loyalty" lists, and any domain names, websites, e-mail addresses, and any other identifiers, whether or not authorized by Franchisor, used by Franchisee while operating the Restaurant, and shall promptly execute such documents or take such steps necessary to remove reference to the Restaurant from all trade or business telephone directories, including "yellow" and "white" pages, or at Franchisor's request transfer same to Franchisor. If Franchisee fails or refuses to comply with the requirements of this Section 14.4, Franchisor (or its designee) shall have the right to enter upon the premises of the Restaurant, without being guilty of trespass or any other tort, for the purpose of making or causing to be made such changes as may be required, at the expense of Franchisee, which expense Franchisee agrees to pay upon demand. In the event Franchisee owns the Restaurant or the premises of the Approved Location, and Franchisor does not purchase or acquire the Restaurant or the premises, or does not lease the Restaurant or the premises, Franchisee shall not, and any principal, owner, or affiliate shall not, sell or lease the premises or Restaurant to any person or entity who will utilize the premises or Restaurant for use as a restaurant or other food service business which is a competitor to the California Tortilla® brand, or is a "Competitive Business" as defined in this Agreement. Franchisee agrees to comply with Franchisor's instructions regarding any filings or other requirements that may be necessary to perfect this restriction on the transferability of real estate interests.

14.5 No Confusion. Franchisee agrees, if it continues to operate or subsequently begins to operate any other business, not to use any reproduction, counterfeit copy, or colorable imitation of the Proprietary Marks, either in connection with such other business or the promotion thereof, which is likely to cause confusion, mistake, or deception, or which is likely to dilute Franchisor's rights in and to the Proprietary Marks, and further agrees not to utilize any designation of origin, description, trademark, service mark, or representation which suggests or represents a present or past association or connection with Franchisor, the System, or the Proprietary Marks.

14.6 Pay Monies Owed. Franchisee shall promptly pay all sums owing to Franchisor and its subsidiaries and affiliates (regardless whether those obligations arise under this Agreement or otherwise). In the event of termination for any default of Franchisee, such sums shall include all damages, costs, and expenses, including reasonable attorneys' fees, costs, and expenses (and interest on such fees, costs, and expenses), incurred by Franchisor as a result of the default.

14.7 Damages and Costs. Franchisee shall pay Franchisor all damages, costs, interests, and expenses, including reasonable attorneys' fees, costs, and expenses (and interest on such fees, costs, and expenses), incurred by Franchisor subsequent to the termination or expiration of this Agreement in obtaining injunctive or other relief for the enforcement of any provisions of this Section 14.

14.8 Return of Manuals. Franchisee shall immediately deliver to Franchisor the Manuals and all other manuals, records, and instructions containing confidential information (including without limitation any copies thereof, even if such copies were made in violation of this Agreement), all of which are acknowledged to be the property of Franchisor.

14.9 Option to Purchase Furnishings and Equipment. Franchisor shall have the option, to be exercised within thirty (30) days after termination or default under Franchisee's lease for the Designated Location, to purchase from Franchisee any or all of the furnishings, equipment, signs, fixtures, supplies, or inventory of Franchisee related to the operation of the Restaurant, at the lesser of the fair market value or Franchisee's book value. The book value shall be determined based upon a five (5) year straight-line depreciation of original costs. For equipment that is five (5) or more years old, the parties agree that fair market value shall be deemed to be ten percent (10%) of the equipment's original cost. If Franchisor elects to exercise any option to purchase herein provided, it shall have the right to set off all amounts due from Franchisee.

14.10 Right to Enter and Operate. In order to preserve the goodwill of the System following termination, Franchisor (or its designee) shall have the right to enter the Restaurant (without liability to Franchisee, Franchisee's Principals, or otherwise) for the purpose of continuing the Restaurant's operation and maintaining the goodwill of the business. Franchisee shall obtain a provision in its lease which requires its landlord to allow Franchisor to enter into, and operate, the Restaurant upon termination, as provided or, or consistent with, the Lease Rider attached hereto as Exhibit G.

15. COVENANTS

15.1 Full Time and Best Efforts. Franchisee covenants that during the term of this Agreement, except as otherwise approved in writing by Franchisor, Franchisee (or one (1) of the Highly Trained Personnel who will assume primary responsibility for the franchise operations and shall have been previously approved in writing by Franchisor) shall devote full time, energy, and best efforts to the management and operation of the Restaurant.

15.2 In-Term Covenants. Franchisee specifically acknowledges that, pursuant to this Agreement, Franchisee will receive valuable specialized training and confidential information, including, without limitation, information regarding the operational, sales, promotional, and marketing methods and techniques of Franchisor and the System. Franchisee covenants that during the term of this Agreement, except as otherwise approved in writing by Franchisor, Franchisee shall not, either directly or indirectly (including, but not limited to, through a spouse, a parent, or a child), for itself, or through, on behalf of, or in conjunction with any person, persons, partnership, corporation, or entity:

15.2.1 Divert or attempt to divert any business or customer of the Restaurant or of any Restaurant using the System 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 Franchisor's Proprietary Marks and the System.

15.2.2 Unless released in writing by the employer, (a) employ or seek to employ any person who (i) is at that time employed by Franchisor, an affiliate of Franchisor, or any other franchisee or developer of Franchisor in the role of general manager or assistant manager, or otherwise performs management level functions and has completed Franchisor's management training program, or (ii) was, within six months prior to his/her employ by Franchisee or any person acting for, on behalf of, or at the directions of Franchisee, employed by Franchisor, an affiliate of Franchisor, or a franchisee or developer of Franchisor in the role of general manager or assistant manager, or otherwise performed management level functions and had completed Franchisor's management training program, or (b) otherwise directly or indirectly induce such person to leave his or her employment; provided, however, that in the event Franchisee breaches this Section 15.2.2, Franchisee shall pay to such person's employer or prior employer an amount approximately equal to the actual costs, opportunity costs, lost productivity costs, and recruitment costs, of such person's employer due to the loss of a skilled management employee, which is approximately equal to the sum of ten thousand dollars ($10,000) plus fifty percent (50%) of the first year's salary of such employee; and provided further, however, that the employer or former employer of such person who Franchisee has employed, or sought to employ, or induced to leave his/her employment, shall have the independent right to enforce this Section 15.2.2 against Franchisee as a third party beneficiary of this Section 15.2.2. Franchisee acknowledges and agrees that this provision is reasonable as it is designed to protect a franchisee's, or other operator under the California Tortilla System's, significant investment of time, money and resources in recruiting, training and retaining valuable management employees.

15.2.3 Except as otherwise approved in writing by Franchisor, own, maintain, operate, engage in, or have any interest in any "**Competitive Business**," which shall mean a restaurant or food service business that is the same as or similar to the Restaurant in that it offers Mexican, Tex-Mex, or similar fare, and is operated from a quick service, fast food, or fast casual restaurant.

15.3 Post-Term Covenants. Franchisee covenants that, except as otherwise approved in writing by Franchisor, it shall not, for a continuous uninterrupted period of two (2) years from the date of: (a) a transfer permitted under Section 12 above; (b) expiration or termination of this Agreement (regardless of the cause for termination); or (c) a final order of a duly authorized arbitrator, panel of arbitrators, or a court of competent jurisdiction (after all appeals have been taken) with respect to any of the foregoing or with respect to the enforcement of this Section 15.3; either directly or indirectly (through, on behalf of, or in conjunction with any persons (including, but not limited to, through a spouse, a parent, or a child), partnership, corporation or entity), own, maintain, operate, engage in, or have any interest in any Competitive Business which is, or is intended to be, located: (a) at the Designated Location; (b) within the Territory; (c) within a ten (10) mile radius of the Designated Location; or (d) within a five (5) mile radius of any other California Tortilla Restaurants operating under the System as of the time that the obligations under this Section 15.3 commence.

15.4 Publicly-Held Corporations. Section 15.3 above shall not apply to ownership by Franchisee of less than five percent (5%) beneficial interest in the outstanding equity securities of any publicly-held corporation. As used in this Agreement, the term "publicly-held corporation" shall be deemed to refer to a corporation which has securities that have been registered under the Securities Exchange Act of 1934.

15.5 Individual Covenants. Franchisee shall require and obtain execution of covenants similar to those set forth in Sections 6.3.2, 8, 12, 14, and this Section 15 (as modified to apply to an individual) from any or all of Franchisee's Principals and Highly Trained Personnel. The covenants required by this Section 15.5 shall be in the form provided in Exhibit H to this Agreement. Failure by Franchisee to obtain execution of a covenant required by this Section 15.5 shall constitute a default under Section 13.2.9 above.

15.6 Severability. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section 15 is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Franchisor is a party, Franchisee expressly agrees to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section 15.

15.7 Scope of Covenants. Franchisee understands and acknowledges that Franchisor shall have the right to reduce the scope of any covenant set forth in Sections 15.2 and 15.3 in this Agreement, or any portion thereof, without Franchisee's consent, effective immediately upon receipt by Franchisee of written notice thereof; and Franchisee agrees that it shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Section 22 below.

15.8 Enforcement of Claims. Franchisee expressly agrees that the existence of any claims it may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Section 15. Franchisee agrees to pay all costs and expenses (including reasonable attorneys' fees, costs, and expenses (and interest on such fees, costs, and expenses)) incurred by Franchisor in connection with the enforcement of this Section 15.

15.9 Irreparable Injury. Franchisee acknowledges that Franchisee's violation of the terms of this Section 15 would result in irreparable injury to Franchisor for which no adequate remedy at law may be available, and Franchisee accordingly consents to the issuance of an injunction prohibiting any conduct by Franchisee in violation of the terms of this Section 15.

16. TAXES, PERMITS, AND INDEBTEDNESS

16.1 Taxes. Franchisee shall promptly pay when due all taxes levied or assessed, including, without limitation, unemployment and sales taxes, and all accounts and other indebtedness of every kind incurred by Franchisee in the conduct of the business franchised under this Agreement. If Franchisee is required to deduct any sales tax, gross receipts tax, income tax, withholding tax or similar tax from any payment to Franchisor, then, to the extent that Franchisor is not able to successfully obtain and utilize a tax credit from the applicable taxing authorities, the amount payable by Franchisee shall be increased by such amount as is necessary to make the actual amount received (after such withholding tax and after any additional taxes on account of such additional payment) equal to the amount that Franchisor would have received had no tax payment been required, provided that such shortfall is not caused by Franchisor's negligence in filing the claims, or for reasons that can be solely attributable to Franchisor. Franchisor shall have no liability for any sales, value added, use, service, stamp duty, occupation, excise, gross receipts, income, property or other taxes, whether levied upon this Agreement, Franchisee, the Restaurant, or Franchisee's property, or upon Franchisor, in connection with the sales made or business conducted by Franchisee or the Restaurant (except any taxes Franchisor is required by applicable law to collect from Franchisee with respect to purchases from Franchisor). Payment of all such taxes shall be the responsibility of Franchisee. In the event Franchisor is assessed and/or is required to pay any such taxes, Franchisee shall reimburse Franchisor for all such taxes promptly upon notice from Franchisor, and Franchisor may obtain such payment or reimbursement through the EFT payment process.

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

16.3 Compliance With Laws. Franchisee shall comply with all federal, state, and local laws, rules, and regulations, including without limitation, employment, labor, and wage and hour laws, tax laws, and local operating regulations. Franchisee shall timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the business franchised under this Agreement, including, without limitation, licenses to do business, health certificates, food handler's permits, fictitious name registrations, sales tax permits, and fire clearances. To the extent that the requirements of said laws are in conflict with the terms of this Agreement, the Manuals, or other instructions of Franchisor, Franchisee shall: (a) comply with said laws; and (b) immediately provide written notice describing the nature of such conflict to Franchisor.

16.4 Notification of Claims. Franchisee shall notify Franchisor in writing within three (3) days of receipt of notice of any health or safety violation, the commencement of any action, suit, or proceeding, and of the issuance of any order, writ, injunction, award, or decree of any court, agency, or other governmental instrumentality, or within three (3) days occurrence of any accident or injury which may adversely affect the operation of the Restaurant or the financial condition of Franchisee, or give rise to liability or a claim against Franchisee or Franchisor.

17. INDEPENDENT CONTRACTOR AND INDEMNIFICATION

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

17.2 Identification as Independent Contractor. At all times during the term of this Agreement and any extensions hereof, Franchisee shall hold itself out to the public and to its employees as an independent contractor operating the business pursuant to a franchise from Franchisor.

17.3 No Agency. It is understood and agreed that nothing in this Agreement authorizes Franchisee to make any contract, agreement, warranty, or representation on Franchisor's behalf, or to incur any debt or other obligation in Franchisor's name; and that Franchisor shall in no event assume liability for, or be deemed liable hereunder as a result of, any such action; nor shall Franchisor be liable by reason of any act or omission of Franchisee in its operation of the Restaurant or for any claim or judgment arising therefrom against Franchisee or Franchisor.

17.4 Indemnification. Franchisee shall, to the fullest extent permissible under applicable law, indemnify and hold Franchisor and its affiliates, and their respective officers, directors, employees, and agents harmless against any and all claims, obligations, and damages arising directly or indirectly from, as a result of, or in connection with this Agreement, the Restaurant, Franchisee's operation of the Restaurant, the business conducted under this Agreement, Franchisee's and Franchisee's employees' actions or inaction, or Franchisee's breach of this Agreement, including, without limitation, those alleged to be caused by Franchisor's negligence or brought by Franchisee. Franchisee must also defend Franchisor and its affiliates, and their respective officers, directors, employees, and agents, against all Claims, provided that Franchisor or its affiliates, and their respective officers, directors, employees, and agents may use their own counsel and may control the investigation and defense of such claims, but at Franchisee's cost and expense. Franchisee's obligations under this Section do not apply if (and then only to the extent that) the claims, obligations, and damages are determined to be caused solely by Franchisor's gross negligence or willful misconduct according to a final, unappealable ruling issued by a court or arbitrator with competent jurisdiction. In the event Franchisor incurs any costs or expenses, including, without limitation, legal fees (including, but not limited to, attorneys' fees, costs, and expenses (and interest on such fees, costs, and expenses)), travel expenses, and other charges, in connection with any proceeding involving Franchisee in which Franchisor is not a party, Franchisee shall reimburse Franchisor for all such costs and expenses promptly upon presentation of invoices. Franchisee acknowledges and agrees that Franchisee's indemnification, defense and hold harmless obligations under this Section 17.4 shall survive the termination or expiration of this Agreement.

18. FORCE MAJEURE

Neither party shall be responsible to the other for non-performance or delay in performance occasioned by causes beyond its control, including without limiting the generality of the foregoing: (a) acts of God; (b) acts of war, terrorism, or insurrection; (c) strikes, lockouts, labor actions, boycotts, floods, fires, hurricanes, tornadoes, and/or other casualties; and/or (d) the inability of Franchisor and/or its affiliates or suppliers to manufacture, purchase, and/or cause delivery of any products used in the operation of the Restaurant. The inability of either party to obtain and/or remit funds shall be considered within control of such party.

19. APPROVALS AND WAIVERS

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

19.2 No Warranties. Franchisee acknowledges and agrees that Franchisor makes no warranties or guarantees upon which Franchisee may rely, and assumes no liability or obligation to Franchisee, by providing any waiver, approval, consent, or suggestion to Franchisee in connection with this Agreement, or by reason of any neglect, delay, or denial of any request therefor.

19.3 Waivers. No delay, waiver, omission, or forbearance on the part of Franchisor to exercise any right, option, duty, or power arising out of any breach or default by Franchisee or any other franchisee under any of the terms, provisions, covenants, or conditions of this Agreement, and no custom or practice by the parties at variance with the terms of this Agreement, shall constitute a waiver by Franchisor to enforce any such right, option, duty, or power as against Franchisee, or as to subsequent breach or default by Franchisee. Subsequent acceptance by Franchisor of any payments due to it hereunder shall not be deemed to be a waiver by Franchisor of any preceding or succeeding breach by Franchisee of any terms, provisions, covenants, or conditions of this Agreement.

20. NOTICES

Any and all notices required or permitted under this Agreement shall be in writing and shall be personally delivered, sent via a recognized overnight delivery service (e.g., UPS, FedEx, etc.), or sent by other means which affords the sender evidence of delivery, or of rejected delivery, to the respective parties at the addresses (which shall not include only a P.O. Box) shown on the signature page of this Agreement, unless and until a different address has been designated by written notice to the other party. Any notice by a means which affords the sender evidence of delivery, or rejected delivery, shall be deemed to have been given at the date and time of receipt or rejected delivery.

21. ENTIRE AGREEMENT AND AMENDMENT

This Agreement and the exhibits referred to herein constitute the entire, full, and complete Agreement between Franchisor and Franchisee concerning the subject matter hereof, and supersede any and all prior or contemporaneous negotiations, discussions, understandings and agreements, no other representations having induced Franchisee to execute this Agreement. There are no other oral or written understandings or agreements between Franchisor and Franchisee, or oral representations by Franchisor, or written representations by Franchisor (other than those set forth in Franchisor's Franchise Disclosure

Document that Franchisor provided to you), relating to the subject matter of this Agreement, the franchise relationship, or the Franchised Business. However, and notwithstanding the foregoing, nothing in this Franchise Agreement is intended to disclaim any representations made by Franchisor in the Franchise Disclosure Document that Franchisor furnished to Franchisee. Except for those permitted to be made unilaterally by Franchisor hereunder, no amendment, change, or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing.

22. SEVERABILITY AND CONSTRUCTION

22.1 Severability. If any of the provisions of this Agreement may be construed in more than one way, one of which would render the provision illegal or otherwise voidable or unenforceable, such provision shall have the meaning which renders it valid and enforceable. The language of all provisions of this Agreement shall be construed according to its fair meaning and not strictly against any party. In the event any court or other government authority shall determine any provision in this Agreement is not enforceable as written, the parties agree that the provision shall be amended so that it is enforceable to the fullest extent permissible under the laws and public policies of the jurisdiction in which enforcement is sought and affords the parties the same basic rights and obligations and has the same economic effect. If any provision in this Agreement is held invalid or otherwise unenforceable by any court or other government authority or in any other proceeding, such findings shall not invalidate the remainder of the agreement unless in the reasonable opinion of Franchisor the effect of such determination has the effect of frustrating the purpose of this Agreement, whereupon Franchisor shall have the right by notice in writing to the other party to immediately terminate this Agreement.

22.2 No Other Rights. Except as expressly provided to the contrary herein, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity other than Franchisee, Franchisor, and such of Franchisee's and Franchisor's respective successors and assigns as may be contemplated (and, as to Franchisee, permitted) by Section 12 above, any rights or remedies under or by reason of this Agreement.

22.3 Enforceability of Covenants. Franchisee expressly agrees to be bound by any promise or covenant imposing the maximum duty permitted by law which is subsumed within the terms of any provision of this Agreement, as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions hereof any portion or portions which a court may hold to be unenforceable in a final decision to which Franchisor is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court order.

22.4 Construction. All captions in this Agreement are intended solely for the convenience of the parties, and none shall be deemed to affect the meaning or construction of any provision hereof.

22.5 Survival of Provisions. All provisions of this Agreement which, by their terms or intent, are designed to survive the expiration or termination of this Agreement, shall so survive the expiration, termination and/or rescission of this Agreement.

23. APPLICABLE LAW AND DISPUTE RESOLUTION

23.1 Governing Law. This Agreement takes effect upon its acceptance and execution by Franchisor, and, subject to Franchisor's rights under federal trademark laws, all claims arising out of or relating to this Agreement and/or the parties' relationship will be governed by, and will be interpreted in accordance with, the procedural and substantive laws of the State of Maryland, without regard to its conflict of laws principles; provided, however, that if the covenants in Section 15 of this Agreement would not be enforceable under the laws of Maryland, and the Restaurant is located outside of Maryland, then such covenants shall be interpreted and construed under the laws of the state in which the Restaurant is located. Nothing in this Section 23.1 is intended by the parties to subject this Agreement to any franchise, business opportunity, antitrust, consumer protection, or similar law, rule, or regulation of the State of Maryland to which this Agreement would not otherwise be subject. Further, the parties agree that any state law or regulation applicable to the offer or sale of franchises or the franchise relationship will not apply unless the jurisdictional provisions are independently met. Franchisee waives, to the fullest extent permitted by law, the rights and protections provided by any such franchise law or regulation.

23.2 Venue. The parties agree that all claims brought by Franchisee against Franchisor in any court, whether federal or state, must be brought only within such state and exclusively in the judicial district in which Franchisor has its principal place of business at the time the action is commenced. Any action brought by Franchisor against Franchisee in any court, whether federal or state, may be brought within the state and judicial district in which Franchisor or Franchisee has its principal place of business at the time the action is commenced. The parties agree that this Section 23.2 shall not be construed as preventing either party from removing an action from state to federal court; provided, however, that venue shall be as set forth above. Franchisee and its Principals hereby waive all questions of personal jurisdiction or venue for the purpose of carrying out this provision. **Any such action shall be conducted on an individual basis, and not as part of a consolidated, common, or class action, and Franchisee waives any and all rights to proceed on a consolidated, common, or class basis. Franchisee acknowledges and agrees this Section shall survive the termination or expiration of this Agreement.**

23.3 Mediation. Except as otherwise provided in this Section 23.3, before any party may file a claim or bring an action in court against the other, the parties must first meet to mediate the dispute. The parties may agree on any mediator and/or mediation service to administer and conduct the mediation. In the event the parties cannot agree on a mediator within thirty (30) days of one party's written request to the other party to mediate a dispute, such party (the complainant, defined below) shall submit the dispute to, and any such mediation shall be conducted by, the CPR Center for Alternative Dispute Resolution, under the rules established by the International Franchise Association endorsed National Franchise Mediation Program, and in accordance with its then-current rules for mediation of franchise disputes (and in the event such program is not then in existence, by JAMS in accordance with its then-current rules for mediation of commercial disputes). The mediation shall be non-binding, shall be strictly confidential, and shall comprise negotiation for the purposes of the federal and state rules of evidence. Notwithstanding anything to the contrary, this Section 23.3 shall not bar either party from obtaining judicial or injunctive relief for claims that are based solely on demands for money owed, or from obtaining injunctive relief against threatened conduct that will cause it harm, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions, without having to engage in mediation; this exception includes, without limitation, claims involving the Proprietary Marks.

23.3.1 The non-binding mediation provided for hereunder shall be commenced by the party requesting mediation (the "**complainant**") providing written notice of the request for mediation (the "**request**") to the party with whom mediation is sought (the "**respondent**"). The request shall specify with reasonable particularity the matter or matters on which mediation is sought. A copy of the request shall be given by the complainant simultaneously to Franchisor if Franchisor is not a complainant or respondent.

23.3.2 Non-binding mediation commenced hereunder shall be concluded within sixty (60) days of the issuance of the request or such longer period as may be agreed upon by the parties in writing. Except as required by law, all aspects of the mediation process shall be treated as confidential, shall not be disclosed to others, and shall not be offered or admissible in any other proceeding or legal action whatever. Complainant and respondent shall each bear its own costs of mediation, and each shall bear one-half the cost of the mediator or mediation service.

23.4 No Exclusive Remedies. No right or remedy conferred upon or reserved to Franchisor or Franchisee by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be cumulative of every other right or remedy.

23.5 Injunctive Relief. Nothing herein contained shall bar Franchisor's right to obtain injunctive relief against threatened conduct that will cause it harm, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunction.

23.6 **Waiver of Jury Trial. FRANCHISOR AND FRANCHISEE 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 PROC**EEDING.

23.7 **Limitation of Actions. EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION 23.7,** ANY AND ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE RELATIONSHIP OF FRANCHISEE AND FRANCHISOR, OR FRANCHISEE'S OPERATION OF THE RESTAURANT, INCLUDING ANY PROCEEDING, OR ANY CLAIM IN ANY PROCEEDING (INCLUDING ANY DEFENSES AND ANY CLAIMS OF SET-OFF OR RECOUPMENT), MUST BE BROUGHT OR ASSERTED BEFORE THE EXPIRATION OF THE EARLIER OF (A) THE TIME PERIOD FOR BRINGING AN ACTION UNDER ANY APPLICABLE STATE OR FEDERAL STATUTE OF LIMITATIONS; (B) ONE (1) YEAR AFTER THE DATE UPON WHICH A PARTY DISCOVERED, OR SHOULD HAVE DISCOVERED, THE FACTS GIVING RISE TO AN ALLEGED CLAIM; OR (C) TWO (2) YEARS AFTER THE FIRST ACT OR OMISSION GIVING RISE TO AN ALLEGED CLAIM; OR IT IS EXPRESSLY ACKNOWLEDGED AND AGREED BY ALL PARTIES THAT SUCH CLAIMS SHALL BE IRREVOCABLY BARRED. CLAIMS OF FRANCHISOR ATTRIBUTABLE TO UNDERREPORTING OF SALES, CLAIMS UNDER THE PROVISIONS OF THIS AGREEMENT PERTAINING TO INSURANCE, AND CLAIMS FOR FAILURE TO PAY MONIES OWED AND/OR INDEMNIFICATION SHALL BE SUBJE**CT ONLY TO THE APPLICABLE STATE OR FEDERAL STATUTE OF LIMITATIONS. "CLAIM" IN THIS SECTION 23.7 MEANS ANY ALLEGATION, CHALLENGE, DEMAND, CAUSE OF ACTION, LAWSUIT, ARBITRATION, DISPUTE, CONTROVERSY, INVESTIGATION OR ADMINISTRATIVE PROCEEDING.**

23.8 **Waiver of Damages. FRANCHISOR AND FRANCHISEE HEREBY WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY RIGHT TO OR CLAIM OF ANY PUNITIVE, EXEMPLARY, CONSEQUENTIAL, OR MULTIPLE 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, AND ANY CLAIM TO LIQUIDATED DAMAGES UNDER SECTION 13.7.**

23.9 Costs and Attorneys' Fees. If either Franchisor or Franchisee seeks to enforce this Agreement, or brings any claims relating to the offering of this Franchise Agreement or the franchise relationship, in any judicial or other proceeding, the prevailing party shall be entitled to recover its reasonable costs and expenses (including reasonable attorneys' fees, costs, and expenses (and interest on such fees, costs, and expenses) and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel or living expenses) incurred in connection with such judicial or other proceeding.

24. ACKNOWLEDGMENTS

24.1 Acknowledgments. Franchisee acknowledges that it has conducted an independent investigation of the business franchised hereunder, recognizes that the business venture contemplated by this Agreement involves business risks, and that its success will be largely dependent upon the ability of Franchisee, and if Franchisee is a corporation or a partnership or other business organization, its owners as independent businesspersons. Franchisor expressly disclaims the making of, and Franchisee acknowledges that it has not received from Franchisor or any employee, representative or other party purporting to act on Franchisor's behalf, any warranty, representation, promise or guarantee, express or implied, as to the potential sales volume, profits, or success of the business venture contemplated by this Agreement.

24.2 Receipt of Documents. Franchisee acknowledges that it received a copy of this Agreement, the exhibit(s) hereto, and agreements relating hereto, if any, with all of the blank lines therein filled in, prior to the date on which this Agreement was executed, and with sufficient time within which to review the Agreement, with advisors of its choosing. Franchisee further acknowledges that it received the franchise disclosure document required by the Federal Trade Commission's Franchise Rule at least fourteen (14) days prior to the date on which this Agreement was executed.

24.3 Representations and Warranties. Franchisee and its Principals represent and warrant to Franchisor that: (a) neither Franchisee nor any of its Principals have made any untrue statement of any material fact nor omitted to state any material fact in its and their franchise application and other documents and information submitted to Franchisor, or in obtaining the rights granted herein; (b) neither Franchisee nor any of its Principals have any direct or indirect legal or beneficial interest in any business that may be deemed a competitive business, except as otherwise completely and accurately disclosed in its franchise application materials; (c) Franchisee and its Principals have a legal right to own and operate the Restaurant, and the Principal or officer that executes this Franchise Agreement on behalf of Franchisee has all legal right and authority to execute on behalf of Franchisee and to legally and contractually bind Franchisee; and (d) neither Franchisee nor its Principals (i) have been designated as suspected terrorists under U.S. Executive Order 13244; (ii) are identified, either by name or an alias, pseudonym or nickname, on the lists of "Specially Designated Nationals" or "Blocked Persons" maintained by the U.S. Treasury Department's Office of Foreign Assets Control (texts available at www.treas.gov/offices/enforcement/ofac/); (iii) have violated or will violate any law (in effect now or which may become effective in the future) prohibiting corrupt business practices, money laundering or the aid or support of persons who conspire to commit acts of terror against any person or government, including acts prohibited by the USA PATRIOT Act (text available at http://www.epic.org/privacy/terrorism/hr3162.html), U.S. Executive Order 13244 (text available at http://www.treas.gov/offices/enforcement/ofac/sanctions/terrorism.html), the Foreign Corrupt Practices Act, or any similar law. Franchisee recognizes that Franchisor approved Franchisee in reliance on all of the statements Franchisee and its Principals have made in connection therewith, and that Franchisee has a continuing obligation to advise Franchisor of any material changes in these statements and representations made to Franchisor in this Agreement or in the franchise application.

24.4 No Other Obligations. Each party represents and warrants to the others that his/her/its execution of this Agreement and all exhibits and addenda hereto do not violate or breach any other agreement, contract or covenant to which such party is bound, and further represents and warrants to the other parties that there are no other agreements, court orders, or any other legal obligations that would preclude or in any manner restrict such party from: (a) negotiating and entering into this Agreement; (b) exercising its rights under this Agreement; and/or (c) fulfilling its responsibilities under this Agreement.

24.5 No Other Representations. Franchisee acknowledges that it shall have sole and complete responsibility for the choice of the Designated Location; that Franchisor has not (and shall not be deemed to have, even by Franchisor's approval of the site that is the Designated Location) given any representation, promise, or guarantee of Franchisee's success at the Designated Location; and that Franchisee shall be solely responsible for its own success at the Designated Location.

24.6 Modification of Offers. Franchisee acknowledges and agrees that Franchisor may modify the offer of its franchises to other franchisees in any manner and at any time, which offers and agreements have or may have terms, conditions, and obligations that may differ from the terms, conditions, and obligations in this Agreement.

24.7 Business Judgment. Franchisee understands and agrees that Franchisor may operate and change the System and its business in any manner that is not expressly and specifically prohibited by this Agreement. Whenever Franchisor has expressly reserved in this Agreement or is deemed to have a right and/or discretion to take or withhold an action, or to grant or decline to grant Franchisee a right to take or withhold an action, except as otherwise expressly and specifically provided in this Agreement, Franchisor may make such decision or exercise its right and/or discretion on the basis of Franchisor's judgment of what is in Franchisor's best interests, including without limitation Franchisor's judgment of what is in the best interests of the franchise network, at the time Franchisor's decision is made or its right or discretion is exercised, without regard to whether: (1) other reasonable alternative decisions or actions, or even arguably preferable alternative decisions or actions, could have been made by Franchisor; (2) Franchisor's decision or the action taken promotes Franchisor's financial or other individual interest; (3) Franchisor's decision or the action it takes applies differently to Franchisee and one or more other franchisees or Franchisor's company-owned or affiliate-owned operations; or (4) Franchisor's decision or the exercise of its right or discretion is adverse to Franchisee's interests. In the absence of an applicable statute, Franchisor will have no liability to Franchisee for any such decision or action. Franchisor and Franchisee intend that the exercise of Franchisor's right or discretion will not be subject to limitation or review. If applicable law implies a covenant of good faith and fair dealing in this Agreement, Franchisor and Franchisee agree that such covenant shall not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement and that this Agreement grants Franchisor the right to make decisions, take actions and/or refrain from taking actions not inconsistent with Franchisee's rights and obligations hereunder.

24.8 Consultation. Franchisee acknowledges that it has read and understood this Agreement, the exhibits hereto, and agreements relating thereto, if any, and that Franchisor has accorded Franchisee ample time and opportunity to consult with advisors (including attorneys) of Franchisee's own choosing about the potential benefits and risks of entering into this Agreement.

IN WITNESS WHEREOF, the parties hereto have duly signed and delivered this Agreement in duplicate on the day and year first above written.

California Tortilla Group, Inc.	____
Franchisor	Franchisee
By:____________________________________	By:____________________________________
Name: Robert Phillips	Name:__________________________________
Title: President	Title:___________________________________

Address for Notices:

California Tortilla Group, Inc.
7825 Tuckerman Lane, Suite 214
Potomac, Maryland 20854
Telephone: (301) 545-0035
Fax: (301) 545-0051
Attn: Robert Phillips

with a copy to:

Lathrop GPM LLP
600 New Hampshire Avenue, NW, Suite 700
Washington, DC 20037
Telephone: (202) 295-2229
Mark.Kirsch@lathropgpm.com
Fax: (202) 295-2279
Attn: Mark Kirsch, Esq.

Address for Notices:

____
____
____
Telephone: ______________________________
Attn: __________________________________

CALIFORNIA TORTILLA
FRANCHISE AGREEMENT
EXHIBIT A
DESIGNATED LOCATION AND TERRITORY

1. The Designated Location is: ____
____
____
____.

2. The Territory is: ____
____
____
____.

[Note: To be completed, updated and executed when site and Territory are designated]

3. Initial Franchise Fee: (check one of the following)

☐ The Initial Franchise Fee is $40,000.

☐ The Initial Franchise Fee is $___________, as this is the ___ Restaurant developed by Franchisee pursuant to an Area Development Agreement dated ____________________, 20__. This amount was paid as part of the Development Fee under the Area Development Agreement.

Franchisor Acknowledgement:	Franchisee Acknowledgement:
California Tortilla Group, Inc.	______________________________
Franchisor	Franchisee
By:______________________________	By:______________________________
Name: Robert Phillips	Name:______________________________
Title: President	Title: ______________________________
Date: ______________________________	Date: ______________________________

CALIFORNIA TORTILLA
FRANCHISE AGREEMENT
EXHIBIT B
SITE SELECTION ADDENDUM

California Tortilla Group, Inc. ("**Franchisor**") and ______________________________________ ("**Franchisee**") have this ____ day of _____________, 20___ (the "**Effective Date**") entered into a California Tortilla Franchise Agreement ("**Franchise Agreement**") and desire to supplement its terms as set out below in this Site Selection Addendum (the "**Addendum**"). The parties hereto agree as follows:

AGREEMENT

1. **Time to Locate Site**: Within one hundred eighty days (180) days after the Effective Date (the "**Search Period**"), Franchisee shall acquire or lease/sublease, at Franchisee's expense, commercial real estate that is properly zoned for the use of the business to be conducted by Franchisee under the Franchise Agreement (a "**Restaurant**") at a site consented to Franchisor as hereinafter provided. Such location shall be within the following area: ____ ____ (the "**Site Selection Area**"). The Site Selection Area is described solely for the purpose of selecting a site for the Restaurant. Franchisor shall not establish, nor franchise another to establish, a California Tortilla Restaurant operating under the System within the Site Selection Area until Franchisor consents to a location for the Restaurant, or until the expiration of the Search Period, whichever event first occurs. If Franchisee has utilized the services of a real estate broker approved or recommended by Franchisor in evaluating sites, and a suitable site has not been identified and consented to by the end of the Search Period, Franchisor may, in its sole discretion, extend the Search Period by up to sixty (60) days. Franchisee acknowledges and agrees that Franchisor shall have no responsibility for, or liability to Franchisee for, any site review, analysis, evaluation, or recommended undertaken by or on behalf of any real estate broker or advisor used or retained by Franchisee, even if such broker or advisor is approved or recommended by Franchisor. Failure by Franchisee to acquire or lease a site for the Franchised Business within the Search Period shall constitute a default under Section 13.2 of the Franchise Agreement and under this Addendum, and Franchisor may terminate the Franchise Agreement and this Addendum, pursuant to the terms of Section 13.2 of the Franchise Agreement.

2. **Site Evaluation Services**: Franchisor shall furnish to Franchisee suggested site selection criteria, which is currently reflected in advice based on site and demographic factors, and will include Franchisor's minimum standards for a location for the Restaurant. Franchisor will also provide such site selection counseling and assistance as Franchisor may deem advisable. Franchisor shall perform any on-site evaluation as Franchisor may deem advisable in response to Franchisee's requests for site approval; provided, however, that Franchisor shall not be required to provide on-site evaluation for any proposed site. If on-site evaluation is deemed necessary and appropriate by Franchisor (on its own initiative or at Franchisee's request) for any Restaurant to be established, Franchisee shall reimburse Franchisor for all reasonable expenses incurred by Franchisor in connection with such on-site evaluation, including, without limitation, the cost of travel, lodging and meals. Franchisor reserves the right to require that Franchisee utilize a real estate broker that Franchisor designates, approves, or recommends to assist Franchisee in locating a site and/or negotiating lease terms for the Restaurant location.

3. **Additional Site Evaluation Services**: Franchisor recommends, but does not require, that Franchisee engage the services of a third-party real estate or site evaluation professional or business, to assist with the analysis and evaluation of a particular site, and/or to utilize competitive sales data from a third-party. Franchisee acknowledges and agrees that any site evaluation model or service is only one tool or factor that may be used to evaluate a potential site, and it is not a predictor of future sales. Further,

Franchisee acknowledges that Franchisor does not represent or guarantee that any particular site will achieve any level of sales, revenues or profits.

4. **Site Selection Package Submission and Approval**: Franchisee shall submit to Franchisor, in the form specified by Franchisor, such site approval forms and data that Franchisor may specify, which may include a copy of the site plan, financial information, and such other information or materials as Franchisor may reasonably require, together with an option contract, letter of intent or other evidence satisfactory to Franchisor which confirms Franchisee's favorable prospects for obtaining the site. Franchisee acknowledges that time is of the essence. Franchisor shall have thirty (30) days after receipt of a complete site selection package and request for approval and such information and materials as Franchisor may request to approve or disapprove the proposed site in writing as the location for the Restaurant, in Franchisor's sole discretion. In the event Franchisor does not disapprove a proposed site by written notice to Franchisee within said thirty (30) days, such site shall be deemed approved by Franchisor.

5. **Lease Responsibilities**: Within sixty (60) days of site approval by Franchisor, Franchisee shall execute a lease which shall be coterminous with the Franchise Agreement, or a binding agreement to purchase the site. Franchisor's approval of any lease is conditioned upon inclusion in the lease of the Lease Rider attached to the Franchise Agreement as Exhibit G. However, Franchisor shall not be responsible for review of the Lease for any terms other than those contained in the Lease Rider.

6. **Designated Location**: After the location for the Restaurant is consented to by Franchisor pursuant to the Section 4 hereof and leased or acquired by Franchisee pursuant to Section 5 hereof, the location shall constitute the Designated Location described in Section 1.1 of the Franchise Agreement. The Designated Location shall be specified on Exhibit A to the Franchise Agreement, and shall become a part the Franchise Agreement. The Territory, as defined under Section 1.2 of the Franchise Agreement, shall be the geographic area thereafter described in Exhibit A to the Franchise Agreement, and shall become a part of the Franchise Agreement. Franchisee hereby acknowledges and agrees that consent by Franchisor of a site does not constitute an assurance, representation, or warranty of any kind, express or implied, as to the suitability of the site for the Restaurant or for any other purpose. Consent by Franchisor of the site indicates only that Franchisor believes the site complies with acceptable minimum criteria established by Franchisor solely for its purposes as of the time of the evaluation. Both Franchisee and Franchisor acknowledge that application of criteria that have been effective with respect to other sites and premises may not be predictive of potential for all sites and that, subsequent to approval by Franchisor of a site and demographic factors, such as competition from other similar businesses, included in or excluded from criteria used by Franchisor could change, thereby altering the potential of a site. Such factors are unpredictable and are beyond the control of Franchisor. Franchisor shall not be responsible for the failure of a site approved by Franchisor to meet Franchisee's expectations as to revenue or operational criteria. Franchisee further acknowledges and agrees that its acceptance of a franchise for the operation of the Restaurant at the site is based on its own independent investigation of the suitability of the site.

7. **Entire Agreement**: This Addendum shall be considered an integral part of the Franchise Agreement between the parties hereto, and the terms of this Addendum shall be controlling with respect to the subject matter hereof. All capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Franchise Agreement. Except as modified or supplemented by this Addendum, the terms of the Franchise Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, each party hereto has caused its duly authorized representative to duly execute and deliver this Addendum on the date first above written.

California Tortilla Group, Inc.	______________________________
Franchisor	Franchisee
By:______________________________	By:______________________________
Name: Robert Phillips	Name:______________________________
Title: President	Title:______________________________

CALIFORNIA TORTILLA
FRANCHISE AGREEMENT
EXHIBIT C
GUARANTEE, INDEMNIFICATION, AND ACKNOWLEDGMENT

As an inducement to California Tortilla Group, Inc. ("**Franchisor**") to execute the California Tortilla Franchise Agreement between Franchisor and _______________ ("**Franchisee**"), dated _________, 20__ (the "**Agreement**"), the undersigned, jointly and severally, hereby unconditionally guarantee to Franchisor and Franchisor's successors and assigns that all of Franchisee's monetary and other obligations under the Agreement will be punctually paid and performed.

Upon demand by Franchisor, the undersigned each hereby jointly and severally agree to immediately make each payment required of Franchisee under the Agreement and waive any right to require Franchisor to: (a) proceed against Franchisee for any payment required under the Agreement; (b) proceed against or exhaust any security from Franchisee; (c) pursue or exhaust any remedy, including any legal or equitable relief, against Franchisee; or (d) give notice of demand for payment by Franchisee. Without affecting the obligations of the undersigned under this Guarantee, Franchisor may, without notice to the undersigned, extend, modify, or release any indebtedness or obligation of Franchisee, or settle, adjust, or compromise any claims against Franchisee, and the undersigned each hereby jointly and severally waive notice of same and agree to remain and be bound by any and all such amendments and changes to the Agreement.

The undersigned each hereby jointly and severally agree to defend, indemnify and hold Franchisor harmless against any and all losses, damages, liabilities, costs, and expenses (including, but not limited to, reasonable attorney's fees, reasonable costs of financial and other investigation, court costs, and fees and expenses) resulting from, consisting of, or arising out of or in connection with any failure by Franchisee to perform any obligation of Franchisee under the Agreement, any amendment thereto, or any other agreement executed by Franchisee referred to therein.

The undersigned each hereby jointly and severally acknowledge and expressly agree to be individually bound by all of the covenants contained in Sections 6.3.2, 8, 12, 14, and 15 of the Agreement, and acknowledge and agree that this Guarantee does not grant the undersigned any right to use the "California Tortilla" marks or system licensed to Franchisee under the Agreement.

This Guarantee shall terminate upon the termination or expiration of the Agreement, except that all obligations and liabilities of the undersigned which arose from events which occurred on or before the effective date of such termination shall remain in full force and effect until satisfied or discharged by the undersigned, and all covenants which by their terms continue in force after the expiration or termination of the Agreement shall remain in force according to their terms. Upon the death of an individual guarantor, the estate of such guarantor shall be bound by this Guarantee, but only for defaults and obligations hereunder existing at the time of death; and the obligations of the other guarantors will continue in full force and effect.

If Franchisor is required to enforce this Guarantee in a judicial or arbitration proceeding, and prevails in such proceeding, Franchisor shall be entitled to reimbursement of its costs and expenses, including, but not limited to, reasonable accountants', attorneys', attorneys' assistants', arbitrators', and expert witness fees, costs, and expenses, costs of investigation and proof of facts, court costs, other litigation expenses, travel and living expenses, and interest, whether incurred prior to, in preparation for, or in contemplation of the filing of any such proceeding. If Franchisor is required to engage legal counsel in connection with any failure by the undersigned to comply with this Guarantee, the undersigned shall reimburse Franchisor for any of the above-listed costs and expenses Franchisor incurs.

Subject to the obligations and provisions below, each of the undersigned agrees that all actions arising under this Guarantee or the Agreement, or otherwise as a result of the relationship between Franchisor and the undersigned, shall be governed by the provisions of Section 23 of the Agreement, and must be commenced in the state or federal court of general jurisdiction in Maryland, and each of the undersigned irrevocably submits to the jurisdiction of those courts and waives any objection he or she might have to either the jurisdiction of or venue in those courts. Nonetheless, each of the undersigned agrees that Franchisor may enforce this Guarantee and any orders and awards in the courts of the state or states in which he or she is domiciled.

Unless specifically stated otherwise, the terms used in this Guarantee shall have the same meaning as in the Agreement, and shall be interpreted and construed in accordance with Sections 22 and 23 of the Agreement. This Guarantee shall be interpreted and construed under the laws of the State of Maryland. In the event of any conflict of law, the laws of the State of Maryland shall prevail (without regard to, and without giving effect to, the application of Maryland conflict of law rules).

IN WITNESS WHEREOF, each of the undersigned has signed this Guarantee as of the date of the Agreement.

GUARANTOR(S)

(Seal)

Signed:______________________________________
(In his/her individual capacity)

Name:_______________________________________

Address:_____________________________________
____

(Seal)

Signed:______________________________________
(In his/her individual capacity)

Name:_______________________________________

Address:_____________________________________
____

(Seal)

Signed:______________________________________
(In his/her individual capacity)

Name:_______________________________________

Address:_____________________________________
____

CALIFORNIA TORTILLA
FRANCHISE AGREEMENT
EXHIBIT D
LIST OF PRINCIPALS AND OWNERSHIP INTERESTS

Effective Date: This Exhibit D is current and complete
as of ________________, 20___

Franchisee and Its Principals and Owners

1. Form of Franchisee Entity.

(a) Individual Proprietorship. Franchisee's owner(s) (is) (are) as follows:

____

____

____

(b) Corporation, Limited Liability Company, or Partnership. The Franchisee entity was incorporated or formed on ____________________, under the laws of the State of ______________. It has not conducted business under any name other than the corporate, limited liability company, or partnership name and _______________________ ___________________________. The following is a list, as applicable, of the Franchisee's partners, directors, officers and/or members as of the effective date shown above:

Name of Each Director/Officer/Member/Manager	Position(s) Held

2. Principals. The following list includes the full name of each person who is one of Franchisee's owners (as defined in the Franchise Agreement), or an owner of one of Franchisee's owners, and fully describes the nature of each owner's interest (attach additional pages if necessary).

Principal's Name/Address/Tax Identification No.	Percentage/Description of Interest
(a) ______________________________ ______________________________ ______________________________ ______________________________	______________________________ ______________________________
(b) ______________________________ ______________________________ ______________________________ ______________________________	______________________________ ______________________________
(c) ______________________________ ______________________________ ______________________________ ______________________________	______________________________ ______________________________
(d) ______________________________ ______________________________ ______________________________ ______________________________	______________________________ ______________________________

3. Principal Operator. Franchisee's Principal Operator as of the Effective Date is _______ ____ (must be one of the individuals listed in paragraph 2 above). Franchisee may not change the Principal Operator without Franchisor's prior written approval.

{Signature on the next page}

California Tortilla Group, Inc.
Franchisor

By:___________________________________

Name: Robert Phillips
Title: President

Dated:_________________________________

Franchisee

(If Franchisee is taking the franchise as a corporation, limited liability company, or partnership):

____
[Name]

By:___________________________________

Title:_________________________________

Dated**:**_________________________________

(If Franchisee is taking the franchise individually and not as a legal entity):

____
[Signature]

____
[Print Name]

____
[Signature]

____
[Print Name]

Principal Operator:

____
[Signature]

____
[Print Name]

CALIFORNIA TORTILLA
FRANCHISE AGREEMENT
EXHIBIT E
AUTHORIZATION AGREEMENT FOR DIRECT PAYMENTS

____ (Name of Person or Legal Entity)
____(ID Number)

The undersigned depositor ("**Franchisee**") hereby authorizes California Tortilla Group, Inc. ("**Franchisor**") to initiate debit entries and/or credit correction entries to the undersigned's checking and/or savings account(s) indicated below at the depository financial institution named below ("**Depository**") and to debit or credit such account(s) pursuant to Franchisor's instructions for payment of amounts due to Franchisor under the Franchise Agreement between Franchisor and Franchisee. Franchisee acknowledges that the origination of ACH transactions to Franchisee's account must comply with the provisions of U.S. law.

Depository Name	Branch	
City	State	Zip Code
Routing Number	Account Number	

This authorization is to remain in full and force until sixty (60) days after Franchisor has received written notification from Franchisee of its termination.

____
Franchisee:

Sign:_________________________________

Print:_________________________________

Title:_________________________________

Company:_____________________________

Date:_________________________________

Franchisee: Please attach to this form a voided check from the Franchisee's checking and/or savings account indicated above.

CALIFORNIA TORTILLA
FRANCHISE AGREEMENT
EXHIBIT F
ADA CERTIFICATION

California Tortilla Group, Inc. ("**Franchisor**") and ______________________ ("**Franchisee**") are parties to a franchise agreement dated __________________, 20_____ (the "**Franchise Agreement**") for the operation of a California Tortilla Restaurant (the "**Restaurant**"). In accordance with Section 5.2 of the Franchise Agreement, Franchisee hereby certifies to Franchisor that Franchisee will hire and retain an architect and contractor that will, to the best of Franchisee's knowledge and control, construct the Restaurant and its adjacent areas in compliance with all applicable federal, state and local accessibility laws, statutes, codes, rules, regulations and standards, including but not limited to the Americans with Disabilities Act, and all regulations imposed by state, local, and municipal authorities. Franchisee acknowledges that Franchisee and each of its architect and contractor are independent contractors, and the requirement of this certification by Franchisor does not constitute ownership, control, leasing or operation of the Restaurant. Franchisee acknowledges that Franchisor has relied on the information contained in this certification. Furthermore, Franchisee agrees to indemnify Franchisor and the officers, directors, and employees of Franchisor in connection with any and all claims, losses, costs, expenses, liabilities, compliance costs, and damages incurred by the indemnified party(ies) as a result of any matters associated with Franchisee's and/or architect's and/or contractor's compliance with the Americans with Disabilities Act and all regulations imposed by state, local, and municipal authorities, as well as the costs, including attorneys' fees, costs, and expenses (and interest on such fees, costs, and expenses), related to the same.

____
Franchisee:

By:____________________________________

Name:__________________________________

Title:__________________________________

CALIFORNIA TORTILLA
FRANCHISE AGREEMENT
EXHIBIT G
LEASE RIDER

THIS LEASE RIDER is made and entered into ________________________, 20__ BY AND AMONG __________________________ (the "**Landlord**"), _____________________ (the "**Tenant**"), and Caltort Development Corporation, a Maryland corporation whose principal place of business is 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854 (**"Caltort"**) and California Tortilla Group, Inc., a Maryland corporation whose principal place of business is 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854 (**"CTGI"**) (hereinafter "Caltort" and "CTGI" are sometimes collectively referred to as "Franchisor Affiliates").

RECITALS:

A. This Lease Rider supplements and forms part of the attached Lease Agreement between the Landlord and the Tenant dated ______________________________________ (the "**Lease**") for the premises situated at the building (the "Building") know by street address as _________________________________ _______________________________________ (the "**Premises**") to be used by the Tenant as a California Tortilla Restaurant.

B. This Lease Rider is entered into in connection with California Tortilla Group Inc. (**"CTGI"**) approval of the location of the Premises as a California Tortilla Restaurant and the grant of a franchise to the Tenant pursuant to a Franchise Agreement dated __________________, 20__ (the "**Franchise Agreement**").

C. This Lease Rider is intended to make CTGI and Caltort have rights as third party beneficiaries to the Lease and to provide CTGI and Caltort the opportunity to reserve the Premises as a California Tortilla Restaurant under the circumstances set out below.

D. The Landlord agrees that Franchisor Affiliates shall have the right but not the obligation to 1) Cure Defaults of Tenant and 2) to assume the Lease of the Premises on the terms, covenants and conditions contained in this Lease Rider.

THE PARTIES HEREBY AGREE:

1. <u>UPON DEFAULT OF TENANT UNDER THE LEASE</u>

1.1 The Landlord agrees to send to Franchisor Affiliates copies of any Notices of Default that are given to the Tenant concurrently with the giving of such Notices to the Tenant. If the Tenant fails to cure any defaults within the period specified within the Notices, the Landlord shall promptly give to Franchisor Affiliates further written Notice ("**second notice**") specifying the defaults that the Tenant has failed to cure. Franchisor Affiliates shall have forty-five (45) days following receipt of the second written Notice to a) cure the default or b) to exercise their right to enter a new Lease on the same terms as apply to the Lease or Deed of Lease by written notice to the Landlord and the Tenant. In the event that Franchisor Affiliates do exercise the right to enter into a new Lease, then the circumstances described in clause 1.2 below shall apply.

1.2 The provisions of this clause 1.2 shall take effect if and when Caltort exercises its rights pursuant to clause 1.1 (a) above. Franchisor Affiliates shall begin paying rent upon the Landlord delivering possession of the Premises to Franchisor Affiliates as the case may be.

2. UPON TERMINATION OF THE FRANCHISE AGREEMENT

If the Franchise Agreement is terminated for any reason during the term of the Lease or any extension or renewal of the Lease, and if Franchisor Affiliates shall desire to assume the Lease, Franchisor Affiliates shall promptly give the Landlord written notice to this effect.

3. UPON NON-RENEWAL OF THE LEASE TERM

If the Lease contains term renewal or extension right(s) and if the Tenant allows the term to expire without exercising such right(s), the Landlord shall give Franchisor Affiliates written notice to this effect and Franchisor Affiliates shall have the option for thirty (30) days following receipt of such notice to exercise the Tenant’s renewal or extension right(s) on the same terms and conditions as are contained in the Lease. If Franchisor Affiliates elects to exercise such right(s) it shall notify the Landlord in writing whereupon the Landlord and Caltort shall promptly execute and exchange an agreement whereby Caltort assumes the Lease effective at the date of termination of any holding over period by the Tenant to the effect that such extension or renewal term shall have subtracted from it the number of days constituting such holding over period.

4. ADDITIONAL PROVISIONS

4.1 The Tenant agrees that termination of the Franchise Agreement shall be a default under the Lease. In the event of termination of the Franchise Agreement, or if the Tenant fails to timely cure any defaults under the Lease the Tenant shall within ten (10) days after written demand by Franchisor Affiliates, assign all of its right, title and interest in and to the Lease to Franchisor Affiliates. If the Tenant fails to do so within the said ten (10) days, the Tenant hereby designates Franchisor Affiliates as its agent to execute any and all documents, agreements and to take all action as may be necessary or desirable to effect the assignment of the Lease and the relinquishment of any and all of the Tenant’s rights thereunder. The Landlord hereby consents to such assignment subject to Franchisor Affiliates executing an assignment of the Lease. The Tenant further agrees to promptly and peaceably vacate the Premises and to remove its personal property at the written request of Franchisor Affiliates. Any property not so removed by the Tenant within ten (10) days following receipt of such written request shall be deemed abandoned by the Tenant and immediately and permanently relinquished to Franchisor Affiliates. Franchisor Affiliates acknowledges that where Franchisor Affiliates enters into an assignment or sub-letting as referred to in clause 4.4 below it will attempt to procure, if the assignee is a company (other than a listed public company) a Deed of Guarantee in customary form approved or prepared by the landlord from the principal shareholders of the assignee company and (if required by the landlord) by the Directors of the assignee company.

4.2 The Tenant shall be and remain liable to the Landlord for all of its obligations under the Lease, notwithstanding any assignment of the Lease to Franchisor Affiliates. Franchisor Affiliates shall be entitled to recover from the Tenant all amounts it pays to the Landlord to cure the Tenant’s defaults under the Lease including interest thereon and Franchisor Affiliates’ reasonable collection costs.

4.3 After Franchisor Affiliates assumes the Tenant’s interest under the Lease, Franchisor Affiliates may, at any time, sublet the Premises to a California Tortilla franchisee without having to obtain the prior written consent of the Landlord.

4.4 After Franchisor Affiliates assumes the Tenant's interest under the Lease, Franchisor Affiliates may, at any time, assign or sublet its interest under the Lease to a third party, which may or may not be an operator of a California Tortilla Restaurant, but only with the prior written consent of the Landlord and the usual provisions of the Lease concerning consent shall apply. Upon receipt by the Landlord of an assignment agreement pursuant to which the assignee agrees to assume the Lease and to observe the terms, conditions and agreements on the part of the tenant to be performed under the Lease, Franchisor Affiliates shall thereupon be released from all liability as tenant under the Lease from and after the date of assignment, without any need of a written acknowledgment of such release by the Landlord.

4.5 If the Lease or Franchise Agreement is terminated and Franchisor Affiliates fails to exercise its option as described above, the Tenant agrees, upon written demand by Franchisor Affiliates, to de-identify the Premises as a California Tortilla Restaurant and to promptly remove signs, decor and other items which Franchisor Affiliates reasonably requests be removed as being distinctive and indicative of a California Tortilla Restaurant. Franchisor Affiliates may enter upon the Premises without being guilty of trespass or tort to effect de-identification if the Tenant fails to do so within ten (10) days after receipt of written demand from Franchisor Affiliates, following termination of the Franchise Agreement or Lease. The Tenant shall pay Franchisor Affiliates for its reasonable costs and expenses in effecting the de-identification. The Landlord shall not be obligated to Franchisor Affiliates for such costs unless the Landlord and the Tenant share one (1) or more common owners, partners, beneficiaries or shareholders (as the case may be). The Tenant agrees and accepts that its obligations to the Landlord in respect to the provisions of the Lease concerning the removal of signage and additions and alterations at the termination of the Lease subsist notwithstanding the right made available to Franchisor Affiliates pursuant to this clause.

4.6 CTGI and Caltort have the right to assign or delegate their rights, interests and obligations under this Lease Rider and the Lease to any person or entity, including the right to sublease, manage, or operate the California Tortilla Restaurant, without consent or approval of the Landlord, provided that such assignee or delegatee is qualified to operate a California Tortilla® brand restaurant, as determined by CTGI.

4.7 BY EXECUTING THIS LEASE RIDER TO THE LEASE, FRANCHISOR AFFILIATES DOES NOT ASSUME ANY LIABILITY WITH RESPECT TO THE PREMISES OR ANY OBLIGATION AS TENANT UNDER THE LEASE UNLESS AND UNTIL FRANCHISOR AFFILIATES EXPRESSLY ASSUMES SUCH LIABILITY AND/OR OBLIGATION AS DESCRIBED ABOVE BY EXECUTING A NEW LEASE.

4.8 All notices pursuant to this Lease Rider shall be in writing and shall be personally delivered, sent by registered mail or reputable overnight delivery service or by other means which afford the sender evidence of delivery or rejected delivery to the addresses below or to such other address as any party to this Lease Rider may, either by written notice, instruct that notices be given. Further, all notices required to be delivered to Landlord or Tenant under the Lease shall also be delivered to both Caltort and CTGI, in such form, manner and timing as required for such notice under the Lease.

EXECUTED by the parties as follows:

SIGNED by ____________________)
as Landlord by its ________________)
in the presence of:) ____________________________________

(Name of Signatory)
Title:________________________________

SIGNED by _____________________)

as Tenant by its ___________________)
in the presence of:)

____
(Name of Signatory)
Title: ________________________________

SIGNED by California Tortilla Group, Inc.)
by its duly authorized officer in the)
presence of:)

____
(Name of Signatory) Robert Phillips
Title: President

SIGNED by Caltort Development Corporation)
by its duly authorized officer in the)
presence of:)

____
(Name of Signatory) Robert Phillips
Title: President

Addresses for Notices:

Landlord:
____
____
____

Caltort:
Attn: Robert Phillips, President
7825 Tuckerman Lane, Suite 214
Potomac, MD 20854

Tenant:

____
____
____
____

CTGI
Attn: Robert Phillips, President
7825 Tuckerman Lane, Suite 214
Potomac, MD 20854

CALIFORNIA TORTILLA
FRANCHISE AGREEMENT
EXHIBIT H
NON-DISCLOSURE AND NON-COMPETITION AGREEMENT

THIS NON-DISCLOSURE AND NON-COMPETITION AGREEMENT ("**Agreement**") is made this _____ day of _________, 20___, by and between ___________________________ (the "**Franchisee**"), and ___________________________, who is a Principal, manager, supervisor, member, partner, or a person in a managerial position with, Franchisee (the "**Member**").

BACKGROUND:

A. California Tortilla Group, Inc. ("**CTGI**") owns a format and system (the "**System**") relating to the establishment and operation of quick service fast casual restaurant businesses operating in buildings that bear Franchisor's interior and exterior trade dress, under the "California Tortilla" name and marks, which specialize in the sale of burritos, tacos, quesadillas, salads, and other California-Mexican style foods, and such additional products as Franchisor may designate from time to time for on-premises and carry-out consumption (the "**California Tortilla Restaurants**");

B. CTGI and Franchisee have executed a Franchise Agreement ("**Franchise Agreement**") granting Franchisee the right to operate one (1) California Tortilla Restaurant (the "**Restaurant**") and to produce and distribute products and services approved by CTGI and use the Proprietary Marks in connection therewith under the terms and conditions of the Franchise Agreement;

C. The Member, by virtue of his or her position with Franchisee, will gain access to certain of CTGI's Confidential Information, as defined herein, and must therefore be bound by the same confidentiality and non-competition agreement that Franchisee is bound by.

IN CONSIDERATION of these premises, the conditions stated herein, and for other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties agree as follows:

1. Confidential Information. Member shall not, during the term of the Franchise Agreement or thereafter, communicate, divulge, or use for the benefit of any other person, persons, partnership, entity, association, or corporation any confidential information, trade secrets, knowledge, or know-how concerning the methods of operation of the business franchised thereunder which may be communicated to Member or of which Member may be apprised by virtue of Franchisee's operation under the terms of the Franchise Agreement. Any and all information, knowledge, know-how, and techniques which CTGI designates as confidential shall be deemed confidential for purposes of this Agreement, except information which Franchisee can demonstrate came to its attention prior to disclosure thereof by CTGI; or which, at or after the time of disclosure by CTGI to Franchisee, had become or later becomes a part of the public domain, through publication or communication by others. Notwithstanding any other provision of this Agreement, there may be certain, limited circumstances where applicable law allows for the disclosure of certain trade secrets, as specified in CTGI's manuals.

[Note to Franchisee: Section 2 of this Agreement, which includes a covenant not to compete, and a restriction on the employment of a competitor's employee is optional. CTGI does not require you to include this language, and it is noted here only for your convenience. Your decision to have your

employees execute this Agreement with this Section 2 included, and for you to enforce it, is your decision alone. If you elect to include this Section 2, that decision does not suggest that CTGI is an employer of your employees.]

2. Covenants Not to Compete.

(a) Member specifically acknowledges that, pursuant to the Franchise Agreement, and by virtue of its position with Franchisee, Member will receive valuable specialized training and confidential information, including, without limitation, information regarding the operational, sales, promotional, and marketing methods and techniques of CTGI and the System.

(b) Member covenants and agrees that during the term of Member's employment with, or ownership interest in, Franchisee, and except as otherwise approved in writing by CTGI, Member shall not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person, persons, partnership, corporation, or entity:

(i) Divert or attempt to divert any business or customer of the Restaurant or of any Restaurant using the System 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 CTGI's Proprietary Marks and the System;

(ii) Employ or seek to employ any person who is at that time employed by Franchisee, any other franchisee, master franchisee, developer, or development agent, or otherwise directly or indirectly induce such person to leave his or her employment; or

(iii) Own, maintain, operate, engage in, be employed by, or have any interest in any business which is the same as or similar to the Restaurant.

(c) Member covenants and agrees that during the Post-Term Period (defined below), except as otherwise approved in writing by CTGI, Member shall not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person, persons, partnership, corporation, or entity, own, maintain, operate, engage in, or have any interest in any business which is the same as or similar to the Restaurant and which business is, or is intended to be, located: (a) at the Restaurant location or within a ten (10) mile radius of the location of the Restaurant; (b) within the Territory established under the Franchise Agreement; or (c) within a five (5) mile radius of any other California Tortilla Restaurants operating under the System.

(d) As used in this Agreement, the term "Post-Term Period" shall mean a continuous uninterrupted period of two (2) years from the date of: (a) a transfer permitted under Section 12 of the Franchise Agreement with respect to Member; and/or (b) termination of Member's employment with, and/or ownership interest in, Franchisee.

3. Injunctive Relief. Member acknowledges that any failure to comply with the requirements of this Agreement will cause CTGI irreparable injury, and Member agrees to pay all court costs and reasonable attorney's fees incurred by CTGI in obtaining specific performance of, or an injunction against violation of, the requirements of this Agreement.

4. Severability. All agreements and covenants contained herein are severable. If any of them, or any part or parts of them, shall be held invalid by any court of competent jurisdiction for any reason, then the Member agrees that the court shall have the authority to reform and modify that provision in order that the restriction shall be the maximum necessary to protect CTGI's and/or Franchisee's legitimate

business needs as permitted by applicable law and public policy. In so doing, the Member agrees that the court shall impose the provision with retroactive effect as close as possible to the provision held to be invalid.

5. Delay. No delay or failure by CTGI or the Franchisee to exercise any right under this Agreement, and no partial or single exercise of that right, shall constitute a waiver of that or any other right provided herein, and no waiver of any violation of any terms and provisions of this Agreement shall be construed as a waiver of any succeeding violation of the same or any other provision of this Agreement.

6. Jurisdiction, Venue and Choice of Law. This agreement shall be interpreted in accordance with the laws of the state of Maryland. Jurisdiction and venue shall be in the courts of Montgomery County, Maryland or the United States District Court for the District of Maryland, southern division, or the state and county of the residence of the guarantee or the location of the franchise, at the election of Franchisor.

7. Third-Party Beneficiary. Member hereby acknowledges and agrees that CTGI is an intended third-party beneficiary of this Agreement with the right to enforce it, independently or jointly with Franchisee.

IN WITNESS WHEREOF, the Franchisee and the Member attest that each has read and understands the terms of this Agreement, and voluntarily signed this Agreement on this _____ day of ________________, 20___.

FRANCHISEE	MEMBER
____	____
By:_____________________________________	By:_____________________________________
Name:___________________________________	Name:___________________________________
Title:__________________________________	Title:__________________________________

EXHIBIT B
AREA DEVELOPMENT AGREEMENT

CALIFORNIA TORTILLA

AREA DEVELOPMENT AGREEMENT

____
Developer Name

____
Development Area

____
Date of Agreement

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CALIFORNIA TORTILLA
AREA DEVELOPMENT AGREEMENT

THIS AREA DEVELOPMENT AGREEMENT (the "**Agreement**") is made and entered into on this ___ day of _____________, 20___ ("**Effective Date**") by and between:

- California Tortilla Group, Inc., a Maryland corporation whose principal place of business is 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854 ("**Franchisor**"); and

- ____a [resident of] [corporation organized in] [limited liability company organized in] ___________________________ and having offices at ____ ("**Developer**").

BACKGROUND:

A. Franchisor owns a format and system (the "**System**") relating to the establishment and operation of quick service fast casual restaurant businesses that bear Franchisor's interior and exterior trade dress, under the "California Tortilla" and "California Tortilla Company" name and marks, which specialize in the sale of burritos, tacos, quesadillas, salads, and other California-Mexican style foods, and such additional or alternate products as Franchisor may designate from time to time for on-premises and carry-out consumption (the "**California Tortilla Restaurants**");

B. The distinguishing characteristics of the System include, without limitation, a specially-designed building or facility for restaurant operations, with specially developed equipment, equipment layouts, and signage; distinctive interior and exterior design, trade dress and accessories, including, without limitation, the display of "hot" sauces and other products in a manner prescribed by Franchisor; specialized products, and procedures for operations; quality and uniformity of products and services offered; procedures for management and inventory control; training and assistance; and advertising, and promotional programs; all of which may be changed, improved, and further developed by Franchisor from time to time;

C. Franchisor identifies the System by means of certain trade names, service marks, trademarks, logos, emblems, and indicia of origin, including but not limited to the mark "California Tortilla," "California Tortilla and design" and such other trade names, service marks, and trademarks as are now designated (and may hereinafter be designated by Franchisor in writing) for use in connection with the System (the "**Proprietary Marks**);

D. Franchisor continues to develop, use, and control the use of such Proprietary Marks in order to identify for the public the source of services and products marketed thereunder and under the System, and to represent the System's high standards of quality, appearance, and service;

E. Franchisor grants to qualified persons franchises to own and operate California Tortilla Restaurants; and

F. Developer wishes to obtain certain rights to develop California Tortilla Restaurants; and Developer and Franchisor wish to enter into this Agreement in order to reflect the understandings and agreements that they have reached with respect to the foregoing points and the other matters that are addressed herein.

NOW, THEREFORE, the parties, in consideration of the undertakings and commitments of each party to the other party set forth herein, hereby agree as follows:

1. GRANT

1.1 Grant of Rights. Franchisor hereby grants to Developer the right (and Developer hereby accepts the obligation), pursuant to the terms and conditions of this Agreement, to develop a specified number of California Tortilla Restaurants ("**Restaurant**" or "**Restaurants**") in the Development Area (defined below), as set forth in Paragraph 1 of Exhibit A attached hereto. In this regard, the parties further agree that:

1.1.1 The Restaurants shall be developed by Developer pursuant to the development schedule set forth in Paragraph 3 of Exhibit A attached hereto (the "**Development Schedule**"). If, at any time during the term of this Agreement, Developer fails to satisfy the Development Schedule, Franchisor shall have the right, but not the obligation, to exercise Franchisor's termination rights, and other rights, pursuant to Section 6 hereof.

1.1.2 Each Restaurant developed under this Agreement shall be established and operated pursuant to a separate California Tortilla Franchise Agreement (a "**Franchise Agreement**") that shall be executed as provided in Section 3.1 below.

1.1.3 Each Restaurant developed under this Agreement shall be located within the area that is specified in Paragraph 2 of Exhibit A, attached hereto (the "**Development Area**").

1.2 Restrictions on Development by Franchisor. If Developer is in compliance with its obligations under this Agreement and all of the Franchise Agreements between Developer (including any affiliate of Developer) and Franchisor, then Franchisor shall not establish, nor license anyone other than Developer to establish, a Restaurant in the Development Area until the earlier of (a) the termination or expiration of this Agreement, (b) the opening of the last required Restaurant under the Development Schedule, or (c) the last date specified in the Development Schedule, except as otherwise provided under Sections 1.3 below.

1.3 Reservation of Rights. Except as otherwise specifically provided under Section 1.2 above, Franchisor retains all other rights, and therefore Franchisor shall have the right (among others) on any terms and conditions Franchisor deems advisable, and without granting Developer any rights therein, to:

1.3.1 establish, and license others to establish, California Tortilla Restaurants at any location outside the Development Area, notwithstanding such restaurants' proximity to any Restaurant operated by Developer within the Development Area, or their actual or threatened impact on sales at such Restaurant(s);

1.3.2 establish, and license others to establish, California Tortilla Restaurants at any institutional or captive audience facilities, including, without limitation, military bases, airports and other public transportation facilities, government offices or institutions, educational institutions, health care facilities, toll road or highway rest stops, parks, stadiums, malls, museums, art centers, contract or institutional food service operators, in theaters, warehouse clubs, theme parks, amusement centers, truck stops, or casinos ("**Institutional Facilities**") within or outside the Development Area, notwithstanding such California Tortilla Restaurants' proximity to the Development Area, any California Tortilla Restaurant developed or operated pursuant to this Agreement, or their actual or threatened impact on sales at any such California Tortilla Restaurant;

1.3.3 establish, acquire or operate, or license others to establish and operate, restaurants or stores under other systems or other proprietary marks, which restaurants or stores may offer or sell products that are different from the products and services offered from the Restaurant, and which restaurants or stores may be located within or outside the Development Area, notwithstanding such restaurant's or store's proximity to the Development Area or to any Restaurant developed or operated pursuant to this Agreement, or their actual or threatened impact on sales at such California Tortilla Restaurant(s);

1.3.4 in the event Franchisor or its affiliates acquire another chain or system, or Franchisor or its affiliates are acquired by another chain or system, that operates and/or franchises restaurants or stores that are the same or similar to California Tortilla Restaurants in that they have a substantially similar menu or similar theme or concept, Franchisor or its affiliates may establish, acquire or operate, or license others to establish and operate, restaurants or stores under other systems or other marks, which restaurants or stores may offer or sell products or services that are the same as, or similar to, the products and services offered from the Restaurant, and which restaurants or stores may be located within or outside the Development Area, despite these restaurants' or stores' proximity to any California Tortilla Restaurant operated by Developer or their actual or threatened impact on sales at such California Tortilla Restaurant; and

1.3.5 sell and distribute, directly or indirectly, or license others to sell and distribute, directly or indirectly, any products, services, or merchandise from any location or to any purchaser (including, but not limited to, sales made at retail locations, supermarkets, gourmet shops, mail order, and on the Internet), so long as such sales are not conducted from a California Tortilla Restaurant operated from a location inside the Development Area (excluding an Institutional Facility).

1.4 No Rights in Proprietary Marks. This Agreement is not a franchise agreement, and does not grant to Developer any right to use in any manner Franchisor's Proprietary Marks or System.

1.5 No Sublicensing. Developer shall have no right under this Agreement to license others to use in any manner the Proprietary Marks or System.

2. DEVELOPMENT FEE

2.1 Development Fee. In consideration of the development rights granted herein, Developer shall pay to Franchisor the development fee specified in Exhibit A (the "**Development Fee**") on or before the Effective Date. If Developer timely pays the Development Fee to Franchisor, then Developer shall not be required to pay the initial franchise fees for the Restaurants developed pursuant to the Development Schedule that is set forth in Exhibit A as of the Effective Date.

2.2 Non-Refundability. Except as otherwise provided in Section 3.1 below, the Development Fee shall be fully earned when received by Franchisor and shall be non-refundable in consideration of administrative and other expenses incurred by Franchisor and for the development opportunities lost or deferred as a result of the rights granted Developer herein.

3. DEVELOPMENT OBLIGATIONS

3.1 Exercise of Development Obligations; Franchise Agreements. Developer shall execute a Franchise Agreement for each Restaurant to be developed hereunder. Developer shall execute the first Franchise Agreement required under this Agreement contemporaneously with the execution of this Agreement. Notwithstanding the foregoing, Franchisor, in its sole discretion, may permit one or more Franchise Agreements to be executed by entities other than Developer; provided that (a) Developer owns a controlling ownership interest in the franchisee entity; (b) Franchisor consents to the ownership structure of, and each owner of more than twenty-five percent (25%) equity in, the franchisee entity; and (c) the Developer, or a Principal (defined in Section 7.2 below) of Developer consented to by Franchisor, executes a guarantee, guaranteeing to Franchisor the timely payment and performance of the franchisee's obligations under the Franchise Agreement. Each Restaurant shall be located at a site approved by Franchisor in writing, within the Development Area, as provided in the Franchise Agreement (the "**Designated Location**"). The Franchise Agreement for the first (1st) Restaurant developed hereunder shall be in the form of the Franchise Agreement attached hereto as Exhibit D, and the Franchise Agreement for each additional Restaurant developed hereunder shall be the form of Franchise Agreement being offered generally by Franchisor at the time each such Franchise Agreement is executed; except that for each Franchise Agreement executed, no initial franchise fee shall be due, pursuant to Section 2.1 of this Agreement. If Developer is in full compliance with this Agreement and all other Franchise Agreements with Franchisor, then, notwithstanding anything to the contrary in any of the Franchise Agreements, for each Franchise Agreement for a Restaurant required to be established under Section 1.1 above, the initial franchise fee and royalty fee shall be as set forth in the form of Franchise Agreement appended hereto as Exhibit D.

3.2 Development Schedule. Recognizing that time is of the essence, Developer agrees to satisfy the Development Schedule. Failure by Developer to adhere to the Development Schedule shall constitute a default under this Agreement as provided in Section 6.2 hereof. Developer acknowledges and agrees that the time limits and time frames set forth in and inherent in the Development Schedule, and not those in the Franchise Agreement or the Site Selection Addendum to the Franchise Agreement, shall govern Developer's obligations hereunder.

3.3 Site Evaluation. For each Restaurant to be developed hereunder, Developer shall submit to Franchisor, in the form that we specify, such site approval forms and data that Franchisor may specify, which may include a copy of the site plan, financial information, and such other information or materials as Franchisor may reasonably require, together with an option contract, letter of intent, term sheet, or other evidence satisfactory to Franchisor which describes Developer's favorable prospects for obtaining such site. No site shall be deemed approved unless it has been expressly approved in writing by Franchisor. Developer hereby acknowledges and agrees that consent by Franchisor of a site does not constitute an assurance, representation, or warranty of any kind, express or implied, as to the suitability of the site for the Restaurant or for any other purpose. Consent by Franchisor of the site indicates only that Franchisor believes the site complies with acceptable minimum criteria established by Franchisor solely for its purposes as of the time of the evaluation. Both Developer and Franchisor acknowledge that application of criteria that may have been effective with respect to other sites and premises may not be predictive of potential for all sites and that, subsequent to approval by Franchisor of a site and demographic factors, such as competition from other similar businesses, included in or excluded from criteria used by Franchisor could change, thereby altering the potential of a site. Such factors are unpredictable and are beyond the control of Franchisor. Franchisor shall not be responsible for the failure of a site approved by Franchisor to meet Developer's expectations as to revenue or operational criteria. Developer further acknowledges and agrees that its acceptance of a franchise for the operation of a Restaurant at a site is based on its own independent investigation of the suitability of the site. For each Restaurant to be developed hereunder, Developer shall execute a lease/sublease that complies with the provisions of Section 1.1 and Exhibit G of the Franchise Agreement, or a binding agreement to purchase the site. Developer acknowledges and agrees that, notwithstanding the execution of the Franchise Agreement and any applicable exhibits and attachments thereto, the selection and approval of a site that may become an Designated Location under a Franchise Agreement shall be governed by this Agreement and Franchisor's site review and approval procedures as set forth in Franchisor's confidential operations manuals (the "**Manuals**"), and not the Site Selection Addendum to the Franchise Agreement. Franchisor reserves the right to designate third parties to provide Developer with some of the site selection and site evaluation assistance described above.

4. TERM

4.1 Term. The term of this Agreement and all rights granted hereunder shall expire at the earlier of (a) the last date specified in the Development Schedule or (b) the opening of the last Restaurant under the Development Schedule, unless this Agreement is earlier terminated in accordance with the terms set out in this Agreement.

4.2 Option Period. For a period of two (2) years following Developer's successful completion of the Development Schedule (the "**Option Period**"), and provided that Developer is then in compliance with all terms and conditions of this Agreement and all Franchise Agreements between Developer and Franchisor, Franchisor shall not establish, nor authorize any third party to establish, Restaurants within the Development Area. Notwithstanding the above, if, during the Option Period, Franchisor determines that it is desirable to establish (itself or through third party franchisees) additional Restaurants within the Development Area, and so long as Developer remains in compliance with the terms and conditions of all Franchise Agreements and Area Development Agreements between Developer and Franchisor, Franchisor shall first present Developer with written notice of the terms and conditions of Franchisor's proposed development of additional Restaurant(s) within the Development Area (the "**New Restaurant(s)**"), and Developer shall have a right of first option to establish such additional Restaurant(s) in lieu of Franchisor (and/or third party franchisees). Developer shall have thirty (30) days to notify Franchisor in writing of its intent to exercise the right to establish the New Restaurant(s), to execute a development agreement and/or franchise agreement(s) for such New Restaurant(s), and to pay the initial fees due under the new development agreement and/or franchise agreement(s). If Developer fails to respond to the notice within said thirty (30) days, and/or pay the required fee, or fails to adhere to any requirements set forth in the notice, Developer shall have no further right to develop, establish or operate such New Restaurant(s), and Franchisor shall have the right to establish such New Restaurant(s), or to franchise third parties to establish such New Restaurant(s) under the same terms and conditions as those offered to Developer. If Developer exercises its right under this Section 4.2, Developer shall execute the development agreement and/or franchise agreement(s), and all other documents required by Franchisor, within thirty (30) days of Developer's response.

5. DUTIES OF THE PARTIES

5.1 Site Selection Guidelines. Franchisor shall furnish to Developer suggested site selection criteria which is currently reflected in advice based on site and demographic factors, and will include Franchisor's minimum standards for a location for the Restaurant, and such site selection counseling and assistance as Franchisor may deem advisable.

5.2 Site Approval Process. In response to Developer's request for site approval, Franchisor shall perform one (1) on-site evaluation of a proposed site for each Restaurant to be developed hereunder. Franchisor shall perform additional on-site evaluations as Franchisor may deem advisable in response to Developer's requests for site approval; provided, however, that Franchisor shall not be required to provide on-site evaluation for any proposed site(s) in addition to Developer's first (1^{st}) proposed site for each Restaurant. If additional (*e.g.*, more than one (1)) on-site evaluation is deemed necessary and appropriate by Franchisor (on its own initiative or at Developer's request) for any Restaurant to be established, Developer shall reimburse Franchisor for all reasonable expenses incurred by Franchisor in connection with such on-site evaluation visit(s), including, without limitation, the cost of travel, lodging and meals. Franchisor reserves the right to require that Developer utilize a real estate broker that Franchisor designates, approves, or recommends to assist Developer in locating sites and/or negotiating lease terms for the Restaurant location(s).

5.3 Developer's Obligations. Developer accepts the following obligations:

5.3.1 Developer shall at all times preserve in confidence any and all materials and information furnished or disclosed to Developer by Franchisor, and shall disclose such information or materials only to such of Developer's employees or agents who must have access to it in connection with their employment. Developer shall not at any time, without Franchisor's prior written consent, copy, duplicate, record, or otherwise reproduce such materials or information, in whole or in part, nor otherwise make the same available to any unauthorized person.

5.3.2 Developer shall comply with all requirements of federal, state, and local laws, rules, and regulations. To the extent that the requirements of said laws are in conflict with the terms of this Agreement or other instructions of Franchisor, Developer shall: (a) comply with said laws; and (b) immediately provide written notice describing the nature of such conflict to Franchisor.

5.3.3 If, in Franchisor's sole discretion, Franchisor believes that Developer is not able to adequately manage and supervise the operation of multiple Restaurants, and Developer (and/or an affiliate of Developer) owns or operates three (3) or more Restaurants, Franchisor shall have the right to require that Developer utilize one (1) or more district managers ("**District Managers**") to supervise the day-to-day operations of Developer's Restaurants, so that all Restaurants operate in accordance with the System and all Restaurants present a consistent brand image and customer experience in accordance with System standards. Any District Manager(s) shall be required to attend and successfully complete (to Franchisor's reasonable satisfaction) such training course as Franchisor may reasonably require. Franchisor may require that the District Manager also be a Principal of Developer.

5.4 Training. Developer acknowledges that its owners and managers must be knowledgeable regarding the operation of California Tortilla Restaurants, including the preparation and delivery of menu items and the provision of customer service in accordance with the brand standards established by Franchisor, which may be modified by Franchisor from time to time. Developer acknowledges that successful completion of Franchisor's training programs is critical to properly develop, own, operate, and manage Restaurants. Prior to the opening of the first Restaurant hereunder, at least two individuals must attend and successfully complete Franchisor's training programs: one (1) of Developer's Principals who is designated to supervise the operation of the business hereunder, and who has been previously approved by Franchisor and one (1) full-time manager of Developer's operations. Developer shall be under the active full-time management (not necessarily on the premises of any particular Restaurant established hereunder) of at least one (1) of Developer's Principals who has successfully completed (to Franchisor's satisfaction) Franchisor's initial training program.

5.5 Financial Reports. With respect to the operation and financial condition of Developer, Developer shall adopt, until otherwise specified by Franchisor, a fiscal year and fiscal accounting periods which coincide with Franchisor's then-current fiscal year, as specified by Franchisor. Developer shall maintain for a period of not less than three (3) years during the term of this Agreement, and, for not less than three (3) years following the termination, expiration, or non-renewal of this Agreement, full, complete, and accurate books, records, and accounts in accordance with generally accepted accounting principles and in the form and manner prescribed by Franchisor from time to time in the Manuals or otherwise in writing. Developer shall prepare and maintain all books and records required under this Agreement and as prescribed by Franchisor during each fiscal year during this Agreement and for the three years prior to each fiscal year. To the extent books and records are created and/or maintained in an electronic form, all such books and records must be capable of being reviewed by Franchisor or its designee without special hardware or software. In addition, Franchisor reserves the right to require that Developer comply with and satisfy any or all of the following:

5.5.1 Developer shall, at its expense, provide to Franchisor, in a format specified by Franchisor, an annual report that shall be a complete annual financial statement (prepared according to generally accepted accounting principles, that includes a fiscal year-end balance sheet, an income statement for such fiscal year reflecting all year-end adjustments, and a statement of changes in cash flow of Developer), on a review basis, prepared by an independent certified public accountant satisfactory to Franchisor, or an accounting service approved by Franchisor, if such person, company, or service, along with Principal of the Developer, certifies to its accuracy, no later than February 15 of each year for the preceding fiscal year of Developer.

5.5.2 No later than the twentieth (20th) day of each calendar year quarter during the term of this Agreement, Developer shall submit to Franchisor, for the preceding calendar year quarter, in a format acceptable to (or, at Franchisor's election, specified by) Franchisor as amended from time to time: (i) a monthly operating statement (which may be unaudited); and (ii) reports of those income and expense items which Franchisor specifies from time to time for use in any revenue, earnings, and/or cost summary it chooses to furnish to prospective franchisees and/or developers. Developer shall also certify to Franchisor that Developer has accurately and timely filed all state and local sales tax returns for Developer. If required by Franchisor, Developer shall use on-line or other electronic accounting and reporting systems as Franchisor may specify periodically.

5.5.3 Once Developer (and/or any affiliate of Developer) has established and operates two (2) or more Restaurants, then at its expense, Developer shall also furnish to Franchisor, no later than February 15 of each year for the preceding fiscal year during the term hereof, an Administrative P&L. The term "Administrative P&L" shall mean a profit and loss statement, and such additional financial information in such detail as Franchisor may reasonably require, relating to the expenses Developer (and/or its affiliates) incurred with respect to the management of its operations during said fiscal year; and such Administrative P&L shall be prepared on a review basis by an independent certified public accountant satisfactory to Franchisor.

5.6 Guarantee. Each present and future: (i) shareholder of a corporate Developer with at least a twenty percent (20%) equity interest in Developer; (ii) member of a limited liability company Developer, with at least a twenty percent (20%) equity interest in Developer; (iii) partner of a partnership Developer with at least a twenty percent (20%) equity interest in Developer; (iv) partner of a limited liability partnership Developer with at least a twenty percent (20%) equity interest in Developer; (v) general partner of a partnership Developer; (vi) general partner of limited liability partnership Developer; and (vii) managing member of a limited liability company Developer; shall jointly and severally guarantee Developer's performance of each and every provision of this Agreement by executing the Guarantee in the form attached to this Agreement as Exhibit B, provided, however, that no guarantee shall be required from a person who acquires Developer's securities (other than a controlling interest) if and after Developer becomes registered under the Securities Exchange Act of 1934. For purposes of calculating the interest of a person, all interests held by the following shall be attributed, requiring guarantees from all such individuals or entities: (a) family of an individual including his brothers and sisters (whether by the whole or half blood), spouse, ancestors, lineal descendants, and spouses of any of these individuals and lineal descendants of any of such spouses; and (b) any entities controlled in the aggregate by some or all of such individuals.

6. DEFAULT

6.1 Automatic Termination. Developer shall be deemed to be in default under this Agreement, and all rights granted herein shall automatically terminate without notice to Developer, if Developer shall become insolvent or makes a general assignment for the benefit of creditors; or if a petition in bankruptcy is filed by Developer or such a petition is filed against and not opposed by Developer; or if Developer is adjudicated a bankrupt or insolvent; or if a bill in equity or other proceeding for the appointment of a receiver of Developer or other custodian for Developer's business or assets is filed and consented to by

Developer; or if a receiver or other custodian (permanent or temporary) of Developer's assets or property, or any part thereof, is appointed by any court of competent jurisdiction; or if proceedings for a composition with creditors under any state or federal law should be instituted by or against Developer; or if a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless unappealed or a supersedeas bond is filed); or if Developer is dissolved; or if execution is levied against Developer's business or property; or if suit to foreclose any lien or mortgage against the premises or equipment of any Restaurant developed hereunder is instituted against Developer and not dismissed within thirty (30) days; or if the real or personal property of Developer shall be sold after levy thereupon by any sheriff, marshal, or constable.

6.2 Compliance with Development Schedule. Developer acknowledges and agrees that time is of the essence, and that Developer has agreed to strict compliance with the Development Schedule. Upon the occurrence of any of the following events of default, Franchisor may, at its option, terminate this Agreement and all rights granted hereunder or take any of the actions described in Section 6.4 below, without affording Developer any opportunity to cure the default, effective immediately upon the provision of notice to Developer (in the manner provided under Section 9 hereof);

6.2.1 If Developer misses a deadline set forth in the Development Schedule.

6.2.2 If the Franchise Agreement for any Restaurant operated by Developer (or a Principal or entity affiliated with Developer) is terminated.

6.2.3 If Developer, or if a franchisee that is affiliated with Developer, is not operating any of its franchised California Tortilla Restaurants in strict conforming with all agreements, guidelines and standards specified by Franchisor from time to time, and such lack of conformance has not been remedied or cured after notice from Franchisor, even if Franchisor has not issued a formal notice of default, or if Developer or the franchisee is not considered as a franchisee "in good standing" with Franchisor, as Franchisor may specify such criteria from time to time for franchisees in the network.

6.3 Other Defaults; Cure Period. Except as otherwise provided in Sections 6.1 and 6.2, above, if Developer fails to comply with any material term and condition of this Agreement, or fails to comply with the terms and conditions of any Franchise Agreement or other development agreement between the Developer (or a person or entity affiliated with or controlled by the Developer) and Franchisor, such action shall constitute a default under this Agreement. Upon the occurrence of any such default, Franchisor may terminate this Agreement by giving written notice of termination stating the nature of such default to Developer at least thirty (30) days prior to the effective date of termination; provided, however, that Developer may avoid termination by immediately initiating a remedy to cure such default, curing it to Franchisor's satisfaction, and by promptly providing proof thereof to Franchisor within the thirty (30) day period (or such longer period as applicable law may require). If any such default is not cured within the specified time (or such longer period as applicable law may require), this Agreement and all rights granted hereunder (including but not limited to, the right to develop any new Restaurants) will terminate without further notice to Developer, effective immediately upon the expiration of the thirty (30) day period (or such longer period as applicable law may require).

6.4 Actions in Lieu of Termination. If Franchisor is entitled to terminate this Agreement in accordance with Sections 6.2 or 6.3 above, Franchisor shall have the right to undertake any one or more of the following actions instead of terminating this Agreement:

6.4.1 Franchisor may terminate or modify any rights that Developer may have with respect to "exclusivity" or protection in the Development Area, as granted under Section 1.1 above, effective ten (10) days after delivery of written notice thereof to Developer; and/or

6.4.2 Franchisor may modify, or eliminate completely, the Development Area described in Section 1.1 above.

6.4.3 Franchisor may delay Developer's right to develop, own or operate additional California Tortilla Restaurants, for (i) a designated period of time, or until certain events of default under this Agreement or any franchisee agreement are cured, or (ii) indefinitely, and such delay shall not extend, or be deemed for extend, any time period under the Development Schedule.

6.4.4 If any of such rights, options, arrangements, or areas are terminated or modified in accordance with this Section 6.4, such action shall be without prejudice to Franchisor's right to terminate this Agreement in accordance with Sections 6.2 or 6.3 above, and Franchisor shall have the right to retain all Development Fees paid by Developer, and/or to terminate any other rights, options or arrangements under this Agreement at any time thereafter for the same default or as a result of any additional defaults of the terms of this Agreement.

6.5 Post-Termination Rights. Upon termination or expiration of this Agreement, Developer shall have no right to establish or operate any Restaurants for which a Franchise Agreement has not been executed by Franchisor at the time of termination. Thereafter, Franchisor shall be entitled to establish, and to license others to establish, Restaurants in the Development Area (except as may be otherwise provided under any Franchise Agreement that has been executed between Franchisor and Developer).

6.6 Cross-Default. No default under this Area Development Agreement shall constitute a default under any Franchise Agreement between the parties hereto.

6.7 No Exclusive Remedy. No right or remedy herein conferred upon or reserved to Franchisor is exclusive of any other right or remedy provided or permitted by law or equity.

7. TRANSFERS

7.1 Franchisor Transfers. Franchisor shall have the right to transfer or assign this Agreement and all or any part of its rights or obligations under this Agreement, or any interests in the assets of Franchisor, or any ownership or equity interests in Franchisor, to any person or legal entity, and any assignee of Franchisor shall become solely responsible for all obligations of Franchisor under this Agreement from the date of assignment.

7.2 Principals. If Developer is a corporation, limited liability company, partnership, or limited liability partnership, each principal of Developer with at least a twenty percent (20%) equity ownership interest in Developer ("**Principal**"), and the interest of each Principal in Developer, is identified in Exhibit C hereto. Developer represents and warrants that its owners are as set forth on Exhibit C attached to this Agreement, and covenants that it will not permit the identity of such owners, or their respective interests in Developer, to change without complying with this Agreement. Franchisor shall have the right to designate any person or entity which owns a twenty percent (20%) interest in Developer as a Principal, and Exhibit C shall be so amended automatically upon notice thereof to Developer. Throughout the term of this Agreement, Franchisor shall have a continuing right to designate as a Principal any person or entity that owns a direct or indirect interest in Developer.

7.3 Developer Transfers. Developer understands and acknowledges that the rights and duties set forth in this Agreement are personal to Developer, and that Franchisor has granted the rights described in this Agreement in reliance on Developer's or Developer's Principals' business skill, financial capacity, and personal character. Accordingly:

7.3.1 Developer shall not, without the prior written consent of Franchisor, transfer, pledge, or otherwise encumber: (a) the rights and obligations of the Developer under this Agreement; (b) any material asset of Developer; (c) the lease or any other interest in any site that is or may become an Designated Location under any Franchise Agreement; or (d) any ownership interests in Developer.

7.3.2 If Developer is a corporation, Developer shall not, without the prior written consent of Franchisor: (a) issue any voting securities or securities convertible into voting securities, nor (b) permit the transfer, sale, pledge, or any assignment whatsoever of such securities; and the recipient of any such securities shall become a Principal under this Agreement, if so designated by Franchisor.

7.3.3 If Developer is a partnership or limited liability company, the partners of the partnership or members of the limited liability company shall not, without the prior written consent of Franchisor, admit additional general partners or managing members, remove a general partner or managing member, or otherwise materially alter the powers of any general partner or managing member. Each general partner or member of a partnership or limited liability company shall automatically be deemed a Principal of Developer.

7.3.4 A Principal shall not, without the prior written consent of Franchisor, transfer, pledge or otherwise encumber any interest of the Principal in Developer as shown in Exhibit C.

7.3.5 Developer shall not transfer or assign its lease for any Designated Location to, or permit a default or surrender of the lease that will or may cause any Approval Location to be owned, leased, or operated by, any person or entity that will not operate a California Tortilla Restaurant at the Designated Location, without the prior written consent of Franchisor.

7.4 Conditions for Approval. Franchisor shall not unreasonably withhold any consent required by Section 7.3; provided, if Developer proposes to transfer its obligations hereunder or any interest in any material asset, or if Developer or a Principal proposes to transfer any direct or indirect interest in Developer, Franchisor shall have the right to require any or all of the following as conditions of its approval:

7.4.1 The transferor shall have executed a general release (which shall include a release from the transferor, Developer, and the current and former owners, Principals and guarantors of Developer), in a form satisfactory to Franchisor, of any and all claims against Franchisor and its affiliates, successors, and assigns, and their respective directors, officers, shareholders, partners, agents, representatives, servants, and employees in their corporate and individual capacities including, without limitation, claims arising under this Agreement, any other agreement between Developer and Franchisor or its affiliates, and federal, state, and local laws and rules.

7.4.2 The transfer shall be accompanied by a transfer of all franchise agreements with Franchisor and rights to all Restaurants operated thereunder and owned by Developer to the same transferee.

7.4.3 The transferee of a Principal shall be designated as a Principal and each transferee who is designated a Principal shall enter into a written agreement, in a form satisfactory to Franchisor, agreeing to be bound as a Principal under the terms of this Agreement as long as such person or entity owns any interest in Developer; and, if the obligations of Developer were guaranteed by the transferor, the Principal shall guarantee the performance of all such obligations in writing in a form satisfactory to Franchisor.

7.4.4 Prior to, and after the transfer, the Principals of the Developer shall meet Franchisor's educational, managerial, and business standards; each shall possess a good moral character, business reputation, and credit rating; have the aptitude and ability to operate the business of Developer, as may be evidenced by prior related business experience or otherwise; and have adequate financial resources and capital to operate the business.

7.4.5 If a proposed transfer would result in a change in control of the Developer, at Franchisor's option, the transferee or the new developer controlled by the transferee shall execute, for a term ending on the expiration date of this Agreement the form of area development agreement then being offered to new System Developers, and such other ancillary agreements required by Franchisor for the business contemplated hereunder, which agreements shall supersede this Agreement and its ancillary documents in all respects, and the terms of which may differ from the terms of this Agreement.

7.4.6 The transferor shall remain liable for all of the obligations to Franchisor in connection with this Agreement that arose prior to the effective date of the transfer, and any covenants that survive the termination or expiration of this Agreement, and shall execute any and all instruments reasonably requested by Franchisor to evidence such liability.

7.4.7 The transferee shall have the same training obligations as set forth for Developer in Section 5.4.

7.4.8 If a proposed transfer would result in a change in control of Developer, the Developer's business, or any of Developer's assets, including any California Tortilla Restaurants owned, operated, or controlled by Developer, Developer shall pay a non-refundable transfer fee of Ten Thousand Dollars ($10,000), which amount shall be in addition to any transfer fees paid under any Franchise Agreements subject to this Development Agreement. In addition, in the event a proposed transfer is not consummated or closed, for any reason except for disapproval by Franchisor, Developer or the proposed transferee shall reimburse Franchisor for all of its costs and expenses incurred in connection with its evaluation of the proposed transfer, including, without limitation, attorneys' and accountants' fees, background checks, site evaluation, and training, if applicable.

7.4.9 The transferor must acknowledge and agree that the transferor shall remain bound by the covenants contained in Section 8.2 and Section 8.3 of this Agreement.

7.4.10 Franchisor may expand upon, and provide more details related to, the conditions for transfer and Franchisor's consent as described in this Section 7.4, and may do so in the Manuals or otherwise in writing. Franchisor may, but is not obligated to, provide the additional details regarding the transfer conditions and Franchisor's consent to Developer.

7.5 <u>Right of First Option</u>.

7.5.1 If Developer or any Principal desires to accept any *bona fide* offer from a third party to purchase Developer, any material assets of Developer, any direct or indirect interest in this Agreement, or any direct or indirect interest in Developer, Developer or such Principal first must notify Franchisor of such offer, and must provide to Franchisor in writing the terms and conditions upon which such sale or transfer may be made. Franchisor shall have the right and option, exercisable within thirty (30) days after receipt of all such information, to send written notice to seller that Franchisor intends to purchase the seller's interest or such material assets on the same terms and conditions offered by the third party. If Franchisor elects to purchase the seller's interest or such assets, the closing on such purchase shall occur within sixty (60) days from the date of notice to the seller of the election to purchase by Franchisor. If Franchisor does not elect to purchase the interest in Developer or this Agreement, or assets proposed for sale or transfer, Developer or its Principal may then offer such interest in Developer or this Agreement, or assets to third parties for sale or transfer on the same terms and conditions as those offered to Franchisor as described above, subject to the provisions of Section 7.5.2 below.

7.5.2 Any material change in the terms of the *bona fide* offer prior to closing shall constitute a new offer subject to the same rights of first refusal by Franchisor as in the case of the third party's initial offer. Failure of Franchisor to exercise the option afforded by this Section 7.5 shall not constitute a waiver of any other provision of this Agreement, including all of the requirements of this Section 7, with respect to a proposed transfer, or a waiver of any subsequent offer.

7.5.3 In the event the consideration, terms, and/or conditions offered by a third party are such that Franchisor may not reasonably be required to furnish the same consideration, terms, and/or conditions, then Franchisor may purchase the interest proposed to be sold for the reasonable equivalent in cash. If the parties cannot agree within a reasonable time on the reasonable equivalent in cash of the consideration, terms, and/or conditions offered by the third party, they must attempt to appoint a mutually-acceptable independent appraiser to make a binding determination. If the parties are unable to agree upon one (1) independent appraiser, then an independent appraiser shall be promptly designated by Franchisor and another independent appraiser shall be promptly designated by Developer or seller, which two (2) appraisers shall, in turn, promptly designate a third appraiser; all three (3) appraisers shall promptly confer and reach a single determination, which determination shall be binding upon Franchisor and Developer or seller. The cost of any such appraisal shall be shared equally by Franchisor and Developer or seller. If Franchisor elects to exercise its right under this Section 7.5, Franchisor shall have the right to set off all amounts due from Developer or seller, and one-half (½) of the cost of the appraisal, if any, against any payment to the seller.

7.6 Transfer Upon Death. Upon the death of a Principal, the deceased's executor, administrator, or other personal representative shall transfer the deceased's interest to a third party approved by Franchisor within twelve (12) months after the death. If the distributee is not approved by Franchisor, then the distributee shall transfer the deceased's interest to a third party approved by Franchisor within twelve (12) months after the deceased's death.

7.7 Transfer Upon Permanent Disability. Upon the permanent disability of any Principal with a controlling interest in Developer, Franchisor may, in its sole discretion, require such interest to be transferred to a third party in accordance with the conditions described in this Section 7 within six (6) months after notice to Developer. "**Permanent Disability**" shall mean any physical, emotional, or mental injury, illness, or incapacity that would prevent a person from performing the obligations set forth in this Agreement for at least six (6) consecutive months and from which condition recovery within six (6) months from the date of determination of disability is unlikely. Permanent Disability shall be determined by a licensed practicing physician selected by Franchisor upon examination of such person or, if such person refuses to be examined, then such person shall automatically be deemed permanently disabled for the purposes of this Section 7.7 as of the date of refusal. Franchisor shall pay the cost of the required examination.

7.8 Notification Upon Death or Permanent Disability. Upon the death or Permanent Disability of any Principal of Developer, such person or his representative shall promptly notify Franchisor of such death or claim of Permanent Disability. Any transfer upon death or Permanent Disability shall be subject to the same terms and conditions as any *inter vivos* transfer.

7.9 No Waiver of Claims. Franchisor's consent to a transfer which is the subject of this Section 7 shall not constitute a waiver of any claims it may have against the transferring party, nor shall it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms of this Agreement by the transferor or transferee.

7.10 Insolvency. If Developer or any person holding any interest (direct or indirect) in Developer becomes a debtor in a proceeding under the U.S. Bankruptcy Code or any similar law in the U.S.

or elsewhere, it is the parties' understanding and agreement that any transfer of Developer, Developer's obligations and/or rights hereunder, any material assets of Developer, or any indirect or direct interest in Developer shall be subject to all of the terms of this Section 7, including without limitation the rights set forth in Sections 7.3, 7.4, and 7.5 above.

7.11 Securities Offerings. All materials for an offering of stock or partnership interests in Developer or any affiliate of Developer which are required by federal or state law shall be submitted to Franchisor for review as described below before such materials are filed with any government agency. Any materials to be used in any exempt offering shall be submitted to Franchisor for such review prior to their use. No offering by Developer or any affiliate of Developer shall imply (by use of the Proprietary Marks or otherwise) that Franchisor is participating in an underwriting, issuance, or offering of the securities of Developer or Developer's affiliates; and Franchisor's review of any offering shall be limited solely to the relationship between Franchisor and Developer and any subsidiaries and affiliates, if applicable. Franchisor may, at its option, require the offering materials to contain a written statement prescribed by Franchisor concerning the limitations stated in the preceding sentence. Developer (and the offeror if not Developer), the Principals, and all other participants in the offering must fully indemnify Franchisor, its subsidiaries, affiliates, successor, and assigns, and their respective directors, officers, shareholders, partners, agents, representatives, servants, and employees in connection with the offering. For each proposed offering, Developer shall pay Franchisor a non-refundable fee of Five Thousand Dollars ($5,000) or such greater amount as is necessary to reimburse Franchisor for its reasonable costs and expenses (including legal and accounting fees) for reviewing the proposed offering. Developer shall give Franchisor written notice at least thirty (30) days before the date that any offering or other transaction described in this Section 7.12 commences. Any such offering shall be subject to all of the other provisions of this Section 7, including without limitation those set forth in Sections 7.3, 7.4, and 7.5; and further, without limiting the foregoing, it is agreed that any such offering shall be subject to Franchisor's approval as to the structure and voting control of the offeror (and Developer, if Developer is not the offeror) after the financing is completed.

8. COVENANTS

8.1 Full Time and Best Efforts. Developer covenants that during the term of this Agreement, except as otherwise approved in writing by Franchisor, Developer (or one (1) designated Principal or management employee who will assume primary responsibility for the operations of Developer and shall have been previously approved in writing by Franchisor) shall devote full time, energy, and best efforts to the management and operation of the business contemplated hereunder.

8.2 In-Term Covenants. Developer specifically acknowledges that, pursuant to this Agreement, Developer will receive valuable specialized training and confidential information, including, without limitation, information regarding the operational, sales, promotional, and marketing methods and techniques of Franchisor and the System. Developer covenants that during the term of this Agreement, except as otherwise approved in writing by Franchisor, Developer shall not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person (including, but not limited to, through a spouse, a parent, or a child), persons, partnership corporation or entity:

8.2.1 Divert or attempt to divert any business or customer of any Restaurant using the System 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 Franchisor's Proprietary Marks and the System.

8.2.2 Unless released in writing by the employer, employ or seek to employ any person who is at that time employed by Franchisor, an affiliate of Franchisor or by any other franchisee or developer of Franchisor in the role of general manager or assistant manager, or otherwise performs management level functions and has completed Franchisor's management training program, or otherwise directly or indirectly induce such person to leave his or her employment. Developer acknowledges and agrees that this provision is reasonable as it is designed to protect a developer's or a franchisee's or other operator under the California Tortilla System's significant investment of time, money and resources in recruiting, training and retaining valuable management employees.

8.2.3 Except as otherwise approved in writing by Franchisor, own, maintain, operate, engage in, or have any interest in any "**Competitive Business**," which shall mean a restaurant or food service business that is the same as or similar to the Restaurant in that it offers Mexican, Tex-Mex, or similar fare, and is operated from a quick service, fast food, or fast casual restaurant.

8.3 <u>Post-Term Covenants</u>. Developer covenants that, except as otherwise approved in writing by Franchisor, Developer shall not, for a continuous uninterrupted period of two (2) years from the date of: (a) a transfer permitted under Section 7 above; (b) expiration or termination of this Agreement (regardless of the cause for termination); or (c) a final order of a duly authorized arbitrator, panel of arbitrators, or a court of competent jurisdiction (after all appeals have been taken) with respect to any of the foregoing or with respect to the enforcement of this Section; either directly or indirectly (through, on behalf of, or in conjunction with any persons (including, but not limited to, through a spouse, a parent, or a child), partnership, or corporation, or entity), own, maintain, operate, engage in, or have any interest in any Competitive Business which is, or is intended to be, located within the Development Area, or within a five (5) mile radius of either the Development Area or any other California Tortilla Restaurant operating at the time that the obligations under this Section 8.3 commence.

8.4 <u>Publicly-Held Corporations</u>. Section 8.3 above shall not apply to ownership by Developer of less than five percent (5%) beneficial interest in the outstanding equity securities of any publicly-held corporation. As used in this Agreement, the term "**publicly-held corporation**" shall be deemed to refer to a corporation which has securities that have been registered under the federal Securities Exchange Act of 1934.

8.5 <u>Individual Covenants</u>. At Franchisor's request, Developer shall require and obtain execution of covenants similar to those set forth in Sections 7 and 8 (as modified to apply to an individual) from any or all of the following persons: Developer's Principals and designated management employees. The covenants required by this Section 8.5 shall be in the form provided in Exhibit E to this Agreement. Failure by Developer to obtain execution of a covenant required by this Section 8.5 shall constitute a default under Section 6.3 hereof.

8.6 <u>Severability</u>. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section 8 is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Franchisor is a party, Developer expressly agrees to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section 8.

8.7 <u>Scope of Covenants</u>. Developer understands and acknowledges that Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in Sections 8.2 and 8.3 in this Agreement, or any portion thereof, without Developer's consent, effective immediately upon receipt by Developer of written notice thereof; and Developer agrees that it shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Section 13 hereof.

8.8 <u>Enforcement of Claims</u>. Developer expressly agrees that the existence of any claims it may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Section 8. Developer agrees to pay all costs and expenses (including reasonable attorneys' fees, costs, and expenses (and interest on such fees, costs, and expenses)) incurred by Franchisor in connection with the enforcement of this Section 8.

8.9 Irreparable Injury. Developer acknowledges that Developer's violation of the terms of this Section 8 would result in irreparable injury to Franchisor for which no adequate remedy at law may be available, and Developer accordingly consents to the issuance of an injunction prohibiting any conduct by Developer in violation of the terms of this Section 8.

9. NOTICES

Any and all notices required or permitted under this Agreement shall be in writing and shall be personally delivered, sent via a recognized overnight delivery service, or sent by other means which affords the sender evidence of delivery, or of rejected delivery, to the respective parties at the addresses (which shall not include only a P.O. Box) shown on the signature page of this Agreement, unless and until a different address has been designated by written notice to the other party. Any notice by a means which affords the sender evidence of delivery, or rejected delivery, shall be deemed to have been given at the date and time of receipt or rejected delivery.

10. PERMITS AND COMPLIANCE WITH LAWS

10.1 Compliance with Laws. Developer shall comply with all federal, state, and local laws, rules, and regulations, including without limitation, employment, labor, and wage and hour laws, tax laws, and local operating regulations. Developer shall timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the business contemplated under this Agreement.

10.2 Notification of Claims. Developer shall notify Franchisor in writing within three (3) days of receipt of notice of any health or safety violation, the commencement of any action, suit, or proceeding, and of the issuance of any order, writ, injunction, award, or decree of any court, agency, or other governmental instrumentality, or occurrence of any accident or injury which may adversely affect the operation of the business contemplated hereunder or the financial condition of Developer or give rise to liability or a claim against Developer or Franchisor.

11. INDEPENDENT CONTRACTOR AND INDEMNIFICATION

11.1 Independent Contractors. It is understood and agreed by the parties hereto that this Agreement does not create a fiduciary relationship between them, that Developer shall be an independent contractor, and that nothing in this Agreement is intended to constitute either party an agent, legal representative, subsidiary, joint venturer, partner, employee, or servant of the other for any purpose whatsoever. Developer acknowledges and agrees that it is solely responsible for all personnel decisions, including hiring, firing, disciplining, compensation, benefits, and scheduling, and that such decisions shall be made by Developer, without any influence or advice from Franchisor, and such decisions and actions shall not be, nor deemed to be, a decision or action of Franchisor.

11.2 Identification as Independent Contractor. At all times during the term of this Agreement, Developer shall hold itself out to the public and to its employees as an independent contractor operating pursuant to this Agreement. Developer agrees to take such action as may be necessary to do so, including, without limitation, exhibiting a notice of that fact in a conspicuous place in the Developer's offices, the content of which Franchisor reserves the right to specify.

11.3 No Agency. It is understood and agreed that nothing in this Agreement authorizes Developer to make any contract, agreement, warranty, or representation on Franchisor's behalf, or to incur any debt or other obligation in Franchisor's name; and that Franchisor shall in no event assume liability for, or be deemed liable hereunder as a result of, any such action; nor shall Franchisor be liable by reason of any act or omission of Developer in Developer's operations hereunder, or for any claim or judgment arising therefrom against Developer or Franchisor.

11.4 Indemnification. Developer shall, to the fullest extent permissible under applicable law, indemnify and hold Franchisor, Franchisor's owners and affiliates, and their respective officers, directors, employees, and agents, harmless against any and all claims arising directly or indirectly from, as a result of, or in connection with this Agreement, Developer's operation of the business conducted under this Agreement, Developer's and Developer's employees' actions and inaction, or Developer's breach of this Agreement, including, without limitation, those alleged to be caused by Franchisor's negligence or brought by Developer. Developer must also defend Franchisor and its affiliates, and their respective officers, directors, employees, and agents, against all Claims, provided that Franchisor or its affiliates, and their respective officers, directors, employees, and agents may use their own counsel and may control the investigation and defense of such claims, but at Developer's cost and expense. Developer's obligations under this Section do not apply if (and then only to the extent that) the claims, obligations, and damages are determined to be caused solely by Franchisor's gross negligence or willful misconduct according to a final, unappealable ruling issued by a court or arbitrator with competent jurisdiction. In the event Franchisor incurs any costs or expenses, including, without limitation, legal fees (including, but not limited to, attorneys' fees, costs, and expenses (and interest on such fees, costs, and expenses)), travel expenses, and other charges, in connection with any proceeding involving Developer in which Franchisor is not a party, Developer shall reimburse Franchisor for all such costs and expenses promptly upon presentation of invoices. Developer acknowledges and agrees that Developer's indemnification, defense, and hold harmless obligations under this Section 11.4 shall survive the termination or expiration of this Agreement.

12. APPROVALS AND WAIVERS

12.1 Approvals. Whenever this Agreement requires Franchisor's prior approval or consent, Developer shall make a timely written request to Franchisor therefor, and such approval or consent must be obtained in writing.

12.2 No Warranties. Developer acknowledges and agrees that Franchisor makes no warranties or guarantees upon which Developer may rely, and assumes no liability or obligation to Developer, by providing any waiver, approval, consent, or suggestion to Developer in connection with this Agreement, or by reason of any neglect, delay, or denial of any request therefor.

12.3 Waivers. No delay, waiver, omission, or forbearance on the part of Franchisor to exercise any right, option, duty, or power arising out of any breach or default by Developer under any of the terms, provisions, covenants, or conditions of this Agreement, shall constitute a waiver by Franchisor to enforce any such right, option, duty, or power as against Developer, or as to subsequent breach or default by Developer. Subsequent acceptance by Franchisor of any payments due to it hereunder shall not be deemed to be a waiver by Franchisor of any preceding breach by Developer of any terms, provisions, covenants, or conditions of this Agreement.

13. ENTIRE AGREEMENT AND AMENDMENT

This Agreement and the exhibits referred to herein constitute the entire, full, and complete Agreement between Franchisor and Developer concerning the subject matter hereof, and supersede any and all prior or contemporaneous negotiations, discussions, understandings and agreements, no other representations having induced Developer to execute this Agreement. There are no other oral or written understandings or agreements between Franchisor and Developer, or oral representations by Franchisor, or written representations by Franchisor (other than those set forth in Franchisor's Franchise Disclosure Document that Franchisor provided to Developer), relating to the subject matter of this Agreement, the development rights, or the Franchised Businesses. However, and notwithstanding the foregoing, nothing in this Development Agreement is intended to disclaim any representations made by Franchisor in the Franchise Disclosure Document that Franchisor furnished to Developer. No amendment, change, or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing.

14. SEVERABILITY AND CONSTRUCTION

14.1 Severability. If any of the provisions of this Agreement may be construed in more than one way, one of which would render the provision illegal or otherwise voidable or unenforceable, such provision shall have the meaning which renders it valid and enforceable. The language of all provisions of this Agreement shall be construed according to its fair meaning and not strictly against any party. In the event any court or other government authority shall determine any provision in this Agreement is not enforceable as written, the parties agree that the provision shall be amended so that it is enforceable to the fullest extent permissible under the laws and public policies of the jurisdiction in which enforcement is sought and affords the parties the same basic rights and obligations and has the same economic effect. If any provision in this Agreement is held invalid or otherwise unenforceable by any court or other government authority or in any other proceeding, such findings shall not invalidate the remainder of the agreement unless in the reasonable opinion of Franchisor the effect of such determination has the effect of frustrating the purpose of this Agreement, whereupon Franchisor shall have the right by notice in writing to the other party to immediately terminate this Agreement.

14.2 No Other Rights. Except as expressly provided to the contrary herein, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity other than Developer, Franchisor, Franchisor's officers, directors, and employees, and such of Developer's and Franchisor's respective successors and assigns as may be contemplated (and, as to Developer, permitted) by Section 7 hereof, any rights or remedies under or by reason of this Agreement.

14.3 Enforceability of Contract. Developer expressly agrees to be bound by any promise or covenant imposing the maximum duty permitted by law which is subsumed within the terms of any provision hereof, as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions hereof any portion or portions which a court may hold to be unenforceable in a final decision to which Franchisor is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court order.

14.4 Construction; Captions. All capitalized terms not defined herein shall have the meaning ascribed to them in the Franchise Agreement. All captions in this Agreement are intended solely for the convenience of the parties, and none shall be deemed to affect the meaning or construction of any provision hereof.

14.5 Survival of Provisions. All provisions of this Agreement which, by their terms or intent, are designed to survive the expiration or termination of this Agreement, shall so survive the expiration and/or termination of this Agreement.

15. APPLICABLE LAW

15.1 Governing Law. This Agreement takes effect upon its acceptance and execution by Franchisor, and, subject to Franchisor's rights under federal trademark laws, all claims arising out of or relating to this Agreement and/or the parties' relationship will be governed by, and will be interpreted in accordance with, the procedural and substantive laws of the State of Maryland, without regard to its conflict of law principles; provided, however, that if the covenants in Section 8 of this Agreement would not be enforceable under the laws of Maryland, and the Development Area is located outside of Maryland, then such covenants shall be interpreted and construed under the laws of the state in which the Development Area is located. Nothing in this Section 15.1 is intended by the parties to subject this Agreement to any franchise, business opportunity, antitrust, consumer protection, or similar law, rule, or regulation of Maryland to which this Agreement would not otherwise be subject. Further, the parties agree that any state law or regulation applicable to the offer or sale of franchises or the franchise relationship will not apply unless the jurisdictional provisions are independently met. Developer waives, to the fullest extent permitted by law, the rights and protections provided by any such franchise law or regulation.

15.2 Venue. The parties agree that all claims brought by Developer against Franchisor in any court, whether federal or state, must be brought only within such state and exclusively in the judicial district in which Franchisor has its principal place of business at the time the action is commenced. Any action brought by Franchisor against Developer in any court, whether federal or state, may be brought within the state and judicial district in which Franchisor has its principal place of business at the time the action is commenced. The parties agree that this Section 15.2 shall not be construed as preventing either party from removing an action from state to federal court. Developer hereby waives all questions of personal jurisdiction or venue for the purpose of carrying out this provision. **Any such action shall be conducted on an individual basis, and not as part of a consolidated, common, or class action, and Developer waives any and all rights to proceed on a consolidated, common, or class basis. Developer acknowledges and agrees this Section shall survive the termination or expiration of this Agreement.**

15.3 No Exclusive Remedies. No right or remedy conferred upon or reserved to Franchisor or Developer by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be cumulative of every other right or remedy.

15.4 Injunctive Relief. Nothing herein contained shall bar Franchisor's right to obtain injunctive relief against threatened conduct that will cause it harm, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions.

15.5 Waiver of Jury Trial. **FRANCHISOR AND DEVELOPER 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.**

15.6 Limitations on Actions. **EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION 15.6, ANY AND ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE RELATIONSHIP OF DEVELOPER AND FRANCHISOR, OR DEVELOPER'S OPERATION OF THE BUSINESS CONTEMPLATED HEREUNDER, ANY PROCEEDING, OR ANY CLAIM IN ANY PROCEEDING (INCLUDING ANY DEFENSES OR ANY CLAIMS OF SET-OFF OR RECOUPMENT) MUST BE BROUGHT OR ASSERTED BEFORE THE EXPIRATION OF THE EARLIER OF (A) THE TIME PERIOD FOR BRINGING AN ACTION UNDER ANY APPLICABLE STATE OR FEDERAL STATUTE OF LIMITATIONS; (B) ONE (1) YEAR AFTER THE DATE UPON WHICH A PARTY DISCOVERED, OR SHOULD HAVE DISCOVERED, THE**

FACTS GIVING RISE TO AN ALLEGED CLAIM; OR (C) TWO (2) YEARS AFTER THE FIRST ACT OR OMISSION GIVING RISE TO AN ALLEGED CLAIM; OR IT IS EXPRESSLY ACKNOWLEDGED AND AGREED BY ALL PARTIES THAT SUCH CLAIMS SHALL BE IRREVOCABLY BARRED. CLAIMS OF FRANCHISOR ATTRIBUTABLE TO UNDERREPORTING OF SALES, CLAIMS UNDER THE PROVISIONS OF THIS AGREEMENT PERTAINING TO INSURANCE, AND CLAIMS FOR FAILURE TO PAY MONIES OWED AND/OR INDEMNIFICATION SHALL BE SUBJECT ONLY TO THE APPLICABLE STATE OR FEDERAL STATUTE OF LIMITATIONS. "CLAIM" IN THIS SECTION 15.6 MEANS ANY ALLEGATION, CHALLENGE, DEMAND, CAUSE OF ACTION, LAWSUIT, ARBITRATION, DISPUTE, CONTROVERSY, INVESTIGATION OR ADMINISTRATIVE PROCEEDING.

15.7 Waiver of Damages. **FRANCHISOR AND DEVELOPER HEREBY WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY RIGHT TO OR CLAIM OF ANY PUNITIVE, EXEMPLARY, CONSEQUENTIAL, OR MULTIPLE 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, AND ANY CLAIM TO LIQUIDATED DAMAGES.**

15.8 Costs and Attorneys' Fees. If either Franchisor or Developer seeks to enforce this Agreement, or brings any claims relating to the offering of this Franchise Agreement or the franchise relationship, in an any judicial or other proceeding, the prevailing party shall be entitled to recover its reasonable costs and expenses (including attorneys' fees, costs, and expenses (and interest on such fees, costs, and expenses), and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel or living expenses) incurred in connection with such judicial or other proceeding.

16. ACKNOWLEDGMENTS

16.1 Acknowledgements. Developer acknowledges that it has conducted an independent investigation of the business contemplated hereunder, recognizes that the business venture contemplated by this Agreement involves business risks, and that its success will be largely dependent upon the ability of Developer and if a corporation, partnership, or LLC, its owners as independent businesspersons. Franchisor expressly disclaims the making of, and Developer acknowledges that it has not received, any warranty, representation, or guarantee, express or implied, as to the potential volume, profits, or success of the business venture contemplated by this Agreement.

16.2 Receipt of Documents. Developer acknowledges that it received a complete copy of this Agreement and the Exhibits hereto, with all of the blank lines herein filled in, prior to the date on which this Agreement was executed, and with sufficient time within which to review the Agreement with advisors of its choosing. Developer further acknowledges that it received the franchise disclosure document required by the Federal Trade Commission's Franchise Rule, 16 C.F.R. Part 436, at least fourteen (14) days prior to the date on which this Agreement was executed.

16.3 Representations and Warranties. Developer and its Principals represent and warrant to Franchisor that: (a) neither Developer nor any of its Principals have made any untrue statement of any material fact nor omitted to state any material fact in its and their franchise application and other documents and information submitted to Franchisor, or in obtaining the rights granted herein; (b) neither Developer nor any of its Principals have any direct or indirect legal or beneficial interest in any business that may be deemed a competitive business, except as otherwise completely and accurately disclosed in its application materials; and (c) neither Developer nor its Principals (i) have been designated as suspected terrorists under

U.S. Executive Order 13244; (ii) are identified, either by name or an alias, pseudonym or nickname, on the lists of "Specially Designated Nationals" or "Blocked Persons" maintained by the U.S. Treasury Department's Office of Foreign Assets Control (texts available at www.treas.gov/offices/enforcement/ofac/); (iii) have violated or will violate any law (in effect now or which may become effective in the future) prohibiting corrupt business practices, money laundering or the aid or support of persons who conspire to commit acts of terror against any person or government, including acts prohibited by the USA PATRIOT Act (text available at http://www.epic.org/privacy/terrorism/hr3162.html), U.S. Executive Order 13244 (text available at http://www.treas.gov/offices/enforcement/ofac/sanctions/terrorism.html), the Foreign Corrupt Practices Act, or any similar law. Developer recognizes that Franchisor approved Developer in reliance on all of the statements Developer and its Principals have made in connection therewith, and that Developer has a continuing obligation to advise Franchisor of any material changes in these statements and representations made to Franchisor in this Agreement or in the application materials.

16.4 No Other Obligations. Each party represents and warrants to the others that his/her/its execution of this Agreement and all exhibits and addenda hereto do not violate or breach any other agreement, contract or covenant to which such party is bound, and further represents and warrants to the other parties that there are no other agreements, court orders, or any other legal obligations that would preclude or in any manner restrict such party from: (a) negotiating and entering into this Agreement; (b) exercising its rights under this Agreement; and/or (c) fulfilling its responsibilities under this Agreement.

16.5 Other Acknowledgments. Developer acknowledges that it shall have sole and complete responsibility for the choice of the Development Area and the Designated Locations within the Development Area; that Franchisor has not given any representation, promise, or guarantee of Developer's success in the Development Area and at the Designated Locations; and that Developer shall be solely responsible for its own success in the Development Area and at the Designated Locations. Developer acknowledges that the success of the business venture contemplated under this Agreement is speculative and depends, to a large extent, upon Developer's ability as an independent businessperson, his/her active participation in the daily affairs of the business, market conditions, area competition, availability of product, quality of services provided as well as other factors. Franchisor does not make any representation or warranty express or implied as to the potential success of the business venture contemplated hereby, and Developer acknowledges that it has not received nor relied upon, any such representation or warranty.

16.6 Developer's Obligations. Although Franchisor retains the right to establish and periodically modify System standards, which Developer has agreed to maintain in the operation of the business contemplated hereunder, Developer retains the right and sole responsibility for the day-to-day management, operation, implementation and maintenance of system standards in the business contemplated hereunder.

16.7 Modification of Offers. Developer acknowledges that Franchisor may modify the offer of its franchises and development agreements to other parties in any manner and at any time, which offers and agreements have or may have terms, conditions, and obligations that may differ from the terms, conditions, and obligations in this Agreement.

16.8 Business Judgment. Developer understands and agrees that Franchisor may operate and change the System and its business in any manner that is not expressly and specifically prohibited by this Agreement. Whenever Franchisor has expressly reserved in this Agreement or is deemed to have a right and/or discretion to take or withhold an action, or to grant or decline to grant Developer a right to take or withhold an action, except as otherwise expressly and specifically provided in this Agreement, Franchisor may make such decision or exercise its right and/or discretion on the basis of Franchisor's judgment of what is in Franchisor's best interests, including without limitation Franchisor's judgment of what is in the best interests of the franchise network, at the time Franchisor's decision is made or its right or discretion is exercised, without regard to whether: (1) other reasonable alternative decisions or actions, or even arguably preferable alternative decisions or actions, could have been made by Franchisor; (2) Franchisor's decision or the action taken promotes Franchisor's financial or other individual interest; (3) Franchisor's decision or the action it takes applies differently to Developer and one or more other developers or Franchisor's company-owned or affiliate-owned operations; or (4) Franchisor's decision or the exercise of its right or discretion is adverse to Developer's interests. In the absence of an applicable statute, Franchisor will have no liability to Developer for any such decision or action. Franchisor and Developer intend that the exercise of Franchisor's right or discretion will not be subject to limitation or review. If applicable law implies a covenant of good faith and fair dealing in this Agreement, Franchisor and Developer agree that such covenant shall not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement and that this Agreement grants Franchisor the right to make decisions, take actions and/or refrain from taking actions not inconsistent with Developer's rights and obligations hereunder.

16.9 Consultation. Developer acknowledges that it has read and understood this Agreement, the Exhibits hereto, and agreements relating thereto, if any, and that Franchisor has accorded Developer ample time and opportunity to consult with advisors of Developer's own choosing about the potential benefits and risks of entering into this Agreement.

(Signatures appear on next page)

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed, and delivered this Agreement in duplicate on the day and year first above written.

California Tortilla Group, Inc.	______________________________
Franchisor	Developer
By: ______________________________	By: ______________________________
Name: ______________________________	Name: ______________________________
Title: ______________________________	Title: ______________________________
Address for Notices:	Address for Notices:
California Tortilla Group, Inc.	______________________________
7825 Tuckerman Lane, Suite 214	______________________________
Potomac, Maryland 20854	______________________________
Telephone: (301) 545-0035	Telephone: ______________________________
Fax: (301) 545-0051	Fax: ______________________________
Attn: Robert Phillips	Attn: ______________________________

with a copy to:

Lathrop GPM LLP
600 New Hampshire Avenue, NW, Suite 700
Washington, DC 20037
Telephone: (202) 295-2229
Mark.Kirsch@lathropgpm.com
Fax: (202) 295-2279
Attn: Mark Kirsch, Esq.

CALIFORNIA TORTILLA
AREA DEVELOPMENT AGREEMENT
EXHIBIT A
DEVELOPMENT AREA AND DEVELOPMENT SCHEDULE

1. Restaurants. Developer shall develop, own, and operate ___________ (__) California Tortilla Restaurants.

2. Development Area. All Restaurants developed under this Development Agreement shall be located within the boundaries of the following area, which is the "**Development Area**":

____
____
____

3. Development Schedule. Recognizing that time is of the essence, Developer agrees to satisfy the Development Schedule set forth below:

By (Date)	Cumulative Total Number of Restaurants Which Developer Shall Have Open and in Operation

4. Development Fee. The Development Fee is $____________________.

The applicable Development Fee will depend on the number of Restaurants Developer agrees to develop, as indicated in the chart below:

Number of Restaurants Developed	Development Fee
1	$40,000
2	$80,000
3	$90,000
4	$120,000
5	$125,000
Each Additional Restaurant	Each additional Restaurant is $25,000 per Restaurant.

[Signature Page Follows]

<table>
<tr><td><u>Franchisor Acknowledgement:</u></td><td><u>Developer Acknowledgement:</u></td></tr>
<tr><td>California Tortilla Group, Inc.
Franchisor</td><td>______________________________
Developer</td></tr>
<tr><td>By:______________________________</td><td>By:______________________________</td></tr>
<tr><td>Name: Robert Phillips
Title: President
Date: ______________________________</td><td>Name:______________________________
Title: ______________________________
Date: ______________________________</td></tr>
</table>

CALIFORNIA TORTILLA
AREA DEVELOPMENT AGREEMENT
EXHIBIT B
GUARANTEE, INDEMNIFICATION AND ACKNOWLEDGMENT

As an inducement to California Tortilla Group, Inc. ("**Franchisor**") to execute the California Tortilla Area Development Agreement between Franchisor and ______________________ ("**Developer**"), dated __________, 20__ (the "**Agreement**"), the undersigned, jointly and severally, hereby unconditionally guarantee to Franchisor and Franchisor's successors and assigns that all of Developer's monetary and other obligations under the Agreement will be punctually paid and performed.

Upon demand by Franchisor, the undersigned each hereby jointly and severally agree to immediately make each payment required of Developer under the Agreement and waive any right to require Franchisor to: (a) proceed against Developer for any payment required under the Agreement; (b) proceed against or exhaust any security from Developer; (c) pursue or exhaust any remedy, including any legal or equitable relief, against Developer; or (d) give notice of demand for payment by Developer. Without affecting the obligations of the undersigned under this Guarantee, Franchisor may, without notice to the undersigned, extend, modify, or release any indebtedness or obligation of Developer, or settle, adjust, or compromise any claims against Developer, and the undersigned each hereby jointly and severally waive notice of same and agree to remain and be bound by any and all such amendments and changes to the Agreement.

The undersigned each hereby jointly and severally agree to defend, indemnify and hold Franchisor harmless against any and all losses, damages, liabilities, costs, and expenses (including, but not limited to, reasonable attorney's fees, costs, and expenses (and interest on such fees, costs, and expenses), reasonable costs of financial and other investigation, court costs, and fees and expenses) resulting from, consisting of, or arising out of or in connection with any failure by Developer to perform any obligation of Developer under the Agreement, any amendment thereto, or any other agreement executed by Developer referred to therein.

The undersigned each hereby jointly and severally acknowledge the provisions of Section 15 of the Agreement and expressly agree to be individually bound by all of the covenants contained in Sections 5.3.1, 7, and 8 of the Agreement, and acknowledge and agree that this Guarantee does not grant the undersigned any right to use the "California Tortilla" marks or System.

This Guarantee shall terminate upon the termination or expiration of the Agreement, except that all obligations and liabilities of the undersigned which arose from events which occurred on or before the effective date of such termination shall remain in full force and effect until satisfied or discharged by the undersigned, and all covenants which by their terms continue in force after the expiration or termination of the Agreement shall remain in force according to their terms. Upon the death of an individual guarantor, the estate of such guarantor shall be bound by this Guarantee, but only for defaults and obligations hereunder existing at the time of death; and the obligations of the other guarantors will continue in full force and effect.

Unless specifically stated otherwise, the terms used in this Guarantee shall have the same meaning as in the Agreement, and shall be interpreted and construed in accordance with Section 15 of the Agreement. This Guarantee shall be interpreted and construed under the laws of the State of Maryland. In the event of any conflict of law, the laws of the State of Maryland shall prevail (without regard to, and without giving effect to, the application of Maryland conflict of law rules).

IN WITNESS WHEREOF, each of the undersigned has signed this Guarantee as of the date of the Agreement.

GUARANTOR(S)

(Seal)

Signed:____________________________________
(In his/her individual capacity)

Name:____________________________________

Address:____________________________________
____

(Seal)

Signed:____________________________________
(In his/her individual capacity)

Name:____________________________________

Address:____________________________________
____

(Seal)

Signed:____________________________________
(In his/her individual capacity)

Name:____________________________________

Address:____________________________________
____

CALIFORNIA TORTILLA
AREA DEVELOPMENT AGREEMENT
EXHIBIT C
LIST OF PRINCIPALS

Name of Principal	Address and Telephone	E-mail address	Principal Occupation	Interest %

Franchisor Acknowledgement:

California Tortilla Group, Inc.
Franchisor

By:______________________________________

Name: Robert Phillips
Title: President
Date: ____________________________________

Developer Acknowledgement:

____
Developer

By:______________________________________

Name:___________________________________
Title: ____________________________________
Date: ____________________________________

CALIFORNIA TORTILLA
DEVELOPMENT AGREEMENT
EXHIBIT D
FRANCHISE AGREEMENT

The form of Franchise Agreement currently offered by Franchisor is attached.

CALIFORNIA TORTILLA
AREA DEVELOPMENT AGREEMENT
EXHIBIT E
NON-DISCLOSURE AND NON-COMPETITION AGREEMENT

THIS NON-DISCLOSURE AND NON-COMPETITION AGREEMENT ("**Agreement**") is made this _____ day of _________, 20___, by and between ___________________________ (the "**Developer**"), and ___________________________, who is a shareholder, principal, manager, supervisor, member, partner, or a person in a managerial position with, Developer (the "**Member**").

BACKGROUND:

A. California Tortilla Group, Inc. ("**CTGI**") owns a format and system (the "**System**") relating to the establishment and operation of quick service fast casual restaurant businesses operating in buildings that bear Franchisor's interior and exterior trade dress, under the "California Tortilla" name and marks, which specialize in the sale of burritos, tacos, quesadillas, salads, and other California-Mexican style foods, and such additional products as Franchisor may designate from time to time for on-premises and carry-out consumption (the "**California Tortilla Restaurants**");

B. CTGI and Developer have executed an Area Development Agreement ("**Development Agreement**") granting Developer the right to establish California Tortilla Restaurants (the "**Restaurants**") pursuant to individual franchise agreements, which restaurants will produce and distribute products and services approved by CTGI and use the Proprietary Marks in connection therewith under the terms and conditions of the franchise agreements;

C. The Member, by virtue of his or her position with Developer, will gain access to certain of CTGI's Confidential Information, as defined herein, and must therefore be bound by the same confidentiality and non-competition agreement that Developer is bound by.

IN CONSIDERATION of these premises, the conditions stated herein, and for other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties agree as follows:

1. Confidential Information. Member shall not, during the term of the Franchise Agreement or thereafter, communicate, divulge, or use for the benefit of any other person, persons, partnership, entity, association, or corporation any confidential information, knowledge, or know-how concerning the methods of operation of the business operated thereunder which may be communicated to Member or of which Member may be apprised by virtue of Developer's operation under the terms of the Development Agreement. Any and all information, knowledge, know-how, and techniques which CTGI designates as confidential shall be deemed confidential for purposes of this Agreement, except information which Developer can demonstrate came to its attention prior to disclosure thereof by CTGI; or which, at or after the time of disclosure by CTGI to Developer, had become or later becomes a part of the public domain, through publication or communication by others.

[Note to Developer: Section 2 of this Agreement, which includes a covenant not to compete, is optional. CTGI does not require you to include this language, and it is noted here only for your convenience. Your decision to have your employees execute this Agreement with this Section 2 included, and for you to enforce it, is your decision alone. If you elect to include this Section 2, that decision does not suggest that CTGI is an employer of your employees.]

2. Covenants Not to Compete.

(a) Member specifically acknowledges that, pursuant to the Development Agreement, and by virtue of its position with Developer, Member will receive valuable specialized training and confidential information, including, without limitation, information regarding the operational, sales, promotional, and marketing methods and techniques of CTGI and the System.

(b) Member covenants and agrees that during the term of Member's employment with, or ownership interest in, Developer, and except as otherwise approved in writing by CTGI, Member shall not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person, persons, partnership, corporation, or entity:

(i) Divert or attempt to divert any business or customer of any Restaurant using the System 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 CTGI's Proprietary Marks and the System;

(ii) Employ or seek to employ any person who is at that time employed by CTGI, Developer, any other franchisee, master franchisee, developer, or development agent, or otherwise directly or indirectly induce such person to leave his or her employment; or

(iii) Own, maintain, operate, engage in, be employed by, or have any interest in any business which is the same as or similar to the Restaurant.

(c) Member covenants and agrees that during the Post-Term Period (defined below), except as otherwise approved in writing by CTGI, Member shall not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person, persons, partnership, corporation, or entity, own, maintain, operate, engage in, or have any interest in any business which is the same as or similar to any Restaurant and which business is, or is intended to be, located: (a) at the location of any Restaurant developed or operated pursuant to the Development Agreement or within a ten (10) mile radius of the location of any such Restaurant; (b) within the Development Area established under the Development Agreement; or (c) within a five (5) mile radius of any other California Tortilla Restaurants operating under the System.

(d) As used in this Agreement, the term "Post-Term Period" shall mean a continuous uninterrupted period of two (2) years from the date of: (a) a transfer permitted under Section 7 of the Development Agreement with respect to Member; and/or (b) termination of Member's employment with, and/or ownership interest in, Developer.

3. Injunctive Relief. Member acknowledges that any failure to comply with the requirements of this Agreement will cause CTGI irreparable injury, and Member agrees to pay all court costs and reasonable attorneys' fees, costs, and expenses (and interest on such fees, costs, and expenses) incurred by CTGI in obtaining specific performance of, or an injunction against violation of, the requirements of this Agreement.

4. Severability. All agreements and covenants contained herein are severable. If any of them, or any part or parts of them, shall be held invalid by any court of competent jurisdiction for any reason, then the Member agrees that the court shall have the authority to reform and modify that provision in order that the restriction shall be the maximum necessary to protect CTGI's and/or Developer's legitimate business needs as permitted by applicable law and public policy. In so doing, the Member agrees that the court shall impose the provision with retroactive effect as close as possible to the provision held to be invalid.

5. Delay. No delay or failure by the CTGI or Developer to exercise any right under this Agreement, and no partial or single exercise of that right, shall constitute a waiver of that or any other right provided herein, and no waiver of any violation of any terms and provisions of this Agreement shall be construed as a waiver of any succeeding violation of the same or any other provision of this Agreement.

6. Jurisdiction, Venue and Choice of Law. This agreement shall be interpreted in accordance with the laws of the state of Maryland. Jurisdiction and venue shall be in the courts of Montgomery County, Maryland or the United States District Court for the District of Maryland, southern division, or the state and county of the residence of the guarantee or the location of the franchise, at the election of Franchisor.

7. Third-Party Beneficiary. Member hereby acknowledges and agrees that CTGI is an intended third-party beneficiary of this Agreement with the right to enforce it, independently or jointly with Developer.

IN WITNESS WHEREOF, the Developer and the Member attest that each has read and understands the terms of this Agreement, and voluntarily signed this Agreement on this _____ day of ______________________, 20___.

DEVELOPER	MEMBER
________________________________	________________________________
By:______________________________	By:______________________________
Name:____________________________	Name:____________________________
Title:___________________________	Title:___________________________

EXHIBIT C
<u>LIST OF ADMINISTRATORS</u>

We intend to register this disclosure document as a "franchise" in some or all of the following states, in accordance with the applicable state laws. If and when we pursue franchise registration (or otherwise comply with the franchise investment laws) in these states, the following are the state administrators responsible for the review, registration, and oversight of franchises in these states:

CALIFORNIA Commissioner of Financial Protection and Innovation Department of Financial Protection and Innovation 320 West Fourth Street, Suite 750 Los Angeles, California 90013-2344 (213) 576-7500 (866) 275-2677 (toll free)	**NEW YORK** Office of the New York State Attorney General Investor Protection Bureau, Franchise Section 28 Liberty Street, 21st Floor New York, New York 10005 (212) 416-8236 Phone (212) 416-6042 Fax
HAWAII Commissioner of Securities of the State of Hawaii Department of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722	**NORTH DAKOTA** North Dakota Securities Department 600 Boulevard Avenue, State Capitol Fifth Floor, Dept. 414 Bismarck, North Dakota 58505-0510 (701) 328-4712
ILLINOIS Office of the Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465	**RHODE ISLAND** Director, Department of Business Regulation Securities Division John O. Pastore Center–Bldg. 69-1 1511 Pontiac Avenue Cranston, Rhode Island 02920 (401) 462-9527
INDIANA Indiana Securities Commissioner Securities Division 302 West Washington, Room E-111 Indianapolis, Indiana 46204 (317) 232-6681	**SOUTH DAKOTA** Department of Labor and Regulation Division of Insurance – Securities Regulation 124 S. Euclid, Suite 104 Pierre, South Dakota 57501 (605) 773-3563
MARYLAND Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2020 (410) 576-6360	**VIRGINIA** State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9th Floor Richmond, Virginia 23219 (804) 371-9051
MICHIGAN Michigan Department of Attorney General Consumer Protection Division G. Mennen Williams Building, 1st Floor 525 W. Ottawa St. Lansing, Michigan 48909 (517) 373-7117	**WASHINGTON** Department of Financial Institutions Securities Division – 3rd Floor 150 Israel Road, S.W. Tumwater, Washington 98501 (360) 902-8760
MINNESOTA Commissioner of Commerce Department of Commerce 85 7th Place East, Suite 280 St. Paul, Minnesota 55101 (651) 296-4026	**WISCONSIN** Commissioner of Securities Department of Financial Institutions Division of Securities 4822 Madison Yards Way, North Tower Madison, Wisconsin 53705 (608) 261-9555

EXHIBIT D
AGENTS FOR SERVICE OF PROCESS

We intend to register this disclosure document as a "franchise" in some or all of the following states, in accordance with the applicable state law. If and when we pursue franchise registration (or otherwise comply with the franchise investment laws) in these states, we will designate the following state offices or officials as our agents for service of process in these states:

CALIFORNIA Commissioner of Financial Protection and Innovation California Department of Financial Protection and Innovation 320 West Fourth Street, Suite 750 Los Angeles, California 90013-2344 (213) 576-7500 (866) 275-2677 (toll free)	**NEW YORK** New York Department of State One Commerce Plaza 99 Washington Avenue, 6th Floor Albany, New York 12231-0001 (518) 473-2492
HAWAII Commissioner of Securities of the State of Hawaii Department of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722	**NORTH DAKOTA** Securities Commissioner North Dakota Securities Department 600 Boulevard Avenue State Capitol, Fifth Floor, Dept. 414 Bismarck, North Dakota 58505-0510 (701) 328-4712
ILLINOIS Illinois Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465	**RHODE ISLAND** Director, Department of Business Regulation Securities Division John O. Pastore Center–Bldg. 69-1 1511 Pontiac Avenue Cranston, Rhode Island 02920 (401) 462-9527
INDIANA Indiana Secretary of State 302 West Washington Street, Room E018 Indianapolis, Indiana 46204 (317) 232-6681	**SOUTH DAKOTA** Department of Labor and Regulation Division of Insurance – Securities Regulation 124 S. Euclid, Suite 104 Pierre, South Dakota 57501 (605) 773-3563
MARYLAND Maryland Securities Commissioner 200 St. Paul Place Baltimore, Maryland 21202-2020 (410) 576-6360	**VIRGINIA** Clerk of the State Corporation Commission 1300 East Main Street, 1st Floor Richmond, Virginia 23219 (804) 371-9733
MICHIGAN Michigan Department of Attorney General Consumer Protection Division G. Mennen Williams Building, 1st Floor 525 West Ottawa Street Lansing, Michigan 48933 (517) 373-7117	**WASHINGTON** Director of Department of Financial Institutions Securities Division – 3rd Floor 150 Israel Road, S.W. Tumwater, Washington 98501 (360) 902-8760
MINNESOTA Commissioner of Commerce Minnesota Department of Commerce 85 7th Place East, Suite 280 St. Paul, Minnesota 55101 (612) 296-4026	**WISCONSIN** Wisconsin Commissioner of Securities Department of Financial Institutions Division of Securities 4822 Madison Yards Way, North Tower Madison, Wisconsin 53705 (608) 261-9555

EXHIBIT E
LIST OF FRANCHISEES

Below is a list of our franchisees, licensees, or other operators of California Tortilla Restaurants as of December 31, 2021:

A. Franchisees

Connecticut

Stamford
Gurpinder Kanwal
300 Atlantic Street
Stamford CT 06901
(845) 242-6121
Gurpinder Kanwal

District of Columbia

Cleveland Park
Buenos Arroz, Inc.
3501 Connecticut Avenue
Washington, DC 20008
(202) 244-2447
Peter Halim
Budi Purwanto

GSA Building
RALS KC DC, LLC
1809 E Street, NW
Washington, DC 20006
(908) 327-4382
Chirag Patel

L'Enfant Plaza
Fresh Fare, Inc.
429 L'Enfant Plaza, SW, Suite 335
Washington, DC 20024
(703) 218-8452
Kevin Loeffler

Reagan Trade Center
T and E Food Services, Inc.
1300 Pennsylvania Avenue, NW
Washington, DC 20004
(202) 682-9797
Taesoo Lee

Georgia

Alpharetta — Site not yet seletected

Rang Rasiyo Investment INC
156 Shelton Drive
McDonough GA 30252
(770) 310-5184
Hiren Bhagat

Kansas

Wichita, KS
California Tortilla Greenwich LLC
2244 N. Greenwich Road #100
Wichita, KS 67226
(316) 650-2293
Ziad Jabara

Maryland

Annapolis (Festival at Riva)
Anibal Pazmino
2329-A Forest Drive
Annapolis, MD 21401
(301) 605-5114
Anibal Pazmino

Bowie
Anibal Pazmino
3941 Evergreen Parkway
Bowie, MD 20716
(301) 605-5114
Anibal Pazmino

Clarksburg — Site not yet selected

Gaithersburg Food LLC
901 Russell Ave., Ste 125
Gaithersburg, MD 20879
(240) 447-3920
Sandra Patricia Ramos,
Sudhir Bastola, and Sayed Helal

Columbia — Opened in April 2022

Gaithersburg Food, LLC
6250 Columbia Crossing Circle
Columbia, MD
(240) 447-3920
Sudhir Bastola

Gaithersburg (Paramount)
Franchise Investors, LLC
255 Spectrum Avenue
Gaithersburg, MD 20879
(240) 541-4170
Ken Broadwater, Jr.

Frederick
TWG3 LLC
1700 Kingfisher Drive, Suite 15
Frederick, Maryland 21701
(301) 829-3030
Thomas Geary

Mount Airy
Ischiai, LLC
1311 South Main Street #101
Mount Airy, MD 21771
(301) 829-3030
Thomas Geary

Rockville
WSCT-Rockville, LLC
199-E East Montgomery Avenue
Rockville, MD 20850
(908) 327-4382
Chirag Patel

Silver Spring (Burnt Mills)
RALS KC MD, LLC
10715 Colesville Road
Silver Spring, MD 20901
(301) 438-0080
Dr. Rajeev Khanna

New Jersey

Essex County — Site not yet selected
Rahul Goel (Entity to be formed)
22 Rosemont Terrace
West Orange, NJ 07052
(973) 731-4667
Rahul Goel

Montclair State University
Compass Group
2400 Yorkmont Road
Charlotte, NC 28217
(303) 929-2313
Cindy Martin

Passaic County
CalTort Metro, LLC
106 Belgrove 3A
Mahwah, NJ 07430
(443) 987-5987
David Levitsky

Site not yet selected

Roxbury
ANZ Cal Roxbury LLC
58 Sparrow Court
Newtown, NJ 07860
(908) 327-4382
Chirag Patel

Sicklerville
R&M Unaliya
500 Berlin Cross Keys Road
Sicklervile, NJ 08081
(856) 522-9692
Mihir Unaliya

Pennsylvania

Exton
CHE-3, LLC
284 Main Street, Suite K-2A
Exton, PA 19341
(484) 872-8282
Sean Gray
Vinod Rustgi

Glen Mills (Concordville)
CHE-2, LLC
200 Town Centre Drive, Suite #3
Glen Mills, PA 19342
(610) 358-5880
Sean Gray
Vinod Rustgi

King of Prussia
AHANA Restaurants, LLC
550 Dekalb Pike
King of Prussia, PA 19406
(908) 327-4382
Chirag Patel
Nilita Patel

Langhorne
JMB Restaurant LLC
1295 East Lincoln Highway
Levittown, PA 19056
(610) 992-1300
Bhavin Patel

Phoenixville
CHE-4 LLC
420 Schuylkill Road
Phoenixville PA 19460
(610) 529-9589
Sean Gray

Red Lion
AHANA Restaurants, LLC
10000 Roosevelt Boulevard
Philadelphia, PA 19116
(215) 543-5713
Chirag Patel
Nilita Patel

Upper Providence
CHE-1, LLC
1836 Ridge Pike, Suite 100
Royersford, PA 19468
(610) 831-1113
Sean Gray
Vinod Rustgi

Wilkes-Barre
SAI Wilkes-Barre, LLC
23 Bond Lane
Bloomsburg, PA 17815
(570) 387-9330
Ashok Patel

South Carolina

Charleston
Lowcountry Calitort LLC
1405 Folly Road Suite 502
Charleston SC 29412
(336) 430-0746
Huynh Nguyen

Virginia

Alexandria (Bradlee Center)
RALS KC, Inc.
3672 King Street

Alexandria, VA 22302
(908) 327-4382
Chirag Patel

<u>Arlington (Courthouse)</u>
TL88 Family LLC
2057 Wilson Boulevard
Arlington, VA 22201
(703) 243-4151
Thanh Thai

<u>Ashburn (Brambleton)</u>
RALS KC, Inc.
Brambleton Town Center, Unit #18
Ashburn, VA 20148
(908) 327-4382
Chirag Patel

<u>Chesapeake</u>
RIAAN Restaurant LLC
1220 Greenbrier Parkway
Chesapeake, VA 23320
(410) 262-7354
Atree Gajjar and Maulik Patel

<u>Dumfries</u>
ANZ CAL DUMFRIES, LLC — Reopened October 2021
3934 Fettler Park Drive
Dumfries, VA 22025
(908) 327-4382
Chirag Patel

<u>Manassas (Bull Run)</u>
HSR Tacos LLC
11694 Sudley Manor Drive
Manassas, VA 20109
(202) 710-7240
Abdellatif Elattari

<u>Oakton</u>
RALS KC, Inc.
2930 Chain Bridge Road, #102
Oakton, VA 22124
(908) 327-4382
Chirag Patel

Reston (North Point)
RALS KC, Inc.
1470 North Point Village Center
Reston, VA 20194
(908) 327-4382
Chirag Patel

McLean (Tysons Corner Center)
We Place Properties, LLC
1961 Chain Bridge Road Suite FC04
Tysons Corner Center
McLean, VA 22102
Steve Joyce

Caltort Development
is operating and managing this Restaurant under
a management agreement with the franchisee.
Contact Robert Phillips, President
of CalTort Development (301) 545-0035

West Virginia

Ranson
Fiji Food Group, LLC
217 Oak Lee Drive
Ranson, WV 25438
(304) 724-1303
Sandeep Singh

EXHIBIT F
LIST OF FORMER FRANCHISEES

Below is a list of our former franchisees of California Tortilla Restaurants as of December 31, 2021:

Kansas

Wichita, KS E&A Eats, Inc. 2244 N. Greenwich Road #100 Wichita, KS 67226 (313) 761-1741 Mark Poling	Transferred ownership in October 2021

North Carolina

Durham Balakrishna Kolla 105 West NC HWY 54 Unit 201 Durham, NC 27713 (919) 491-8306 Balakrishna Kolla	Never opened, terminated in June 2021

Pennsylvania

Doylestown Manna Tortilla, Inc. 278 South Main Street Doylestown, PA 18901 (215) 230-4599 Peter Chung	Closed in April 2021

Tennessee Closed in November 2021

Chattanooga TN
RAMS LLC
5207 HWY 153
Chattanooga TN 37343
(423) 503-3779
Divyesh Modi

EXHIBIT G

LIST OF AFFILIATE-OWNED CALIFORNIA TORTILLA RESTAURANTS

There are no company-owned California Tortilla Restaurants.

As of December 31, 2021, there were four California Tortilla Restaurants owned and operated by either our affiliate or a non-franchised licensee in which several of our owners have ownership interest (see Items 1 and 20 of this disclosure document):

Bethesda, Maryland
CalTort Development Group
4871 Cordell Avenue
Bethesda, Maryland 20814
(301) 545-0035

Potomac, Maryland
C.T. Potomac, LLC
7727 Tuckerman Lane
Potomac, Maryland 20854
301-765-3600

Olney, Maryland
Caltort Development Corporation
18101 Village Mart Drive
Olney, Maryland 20832
301-545-0035

Gaithersburg, Maryland (Quince Orchard)
Caltort Development Corporation
12211 Darnestown Road
Gaithersburg, Maryland 20878
(301) 545-0035

Future company-owned California Tortilla Restaurants are expected to be owned and operated by our affiliate, Caltort Development Corporation.

EXHIBIT H
LIST OF AREA DEVELOPERS

Below is a list of our area developers as of December 31, 2021:

Georgia

Alpharetta
Rang Rasiyo Investment INC
156 Shelton Drive
McDonough GA 30252
(770) 310-5184
Hiren Bhagat

Pennsylvania

Delaware County PA, and parts of Montgomery County, PA

CHE-1, LLC
1510 Rene Circle
Downingtown PA 19335
(610) 529-9589
Sean Gray
Vinod Rustgi

Virginia

Norfolk, VA
Atree Gajjar and Maulik Patel
7 Troy Circle
Hampton, VA 23666
(410) 262-7354
Atree Gajjar and Maulik Patel

EXHIBIT I

LIST OF FORMER AREA DEVELOPERS

Former Area Developers who left the system, were terminated, or completed their development schedules in 2021:

Kansas

Wichita (Sedgwick County, KS) E&A Eats, Inc. 8242 Greenbriar Court Wichita, KS 67226 (313) 761-1741 Mark Poling	Terminated in December 2021

EXHIBIT J
FINANCIAL STATEMENTS

CALIFORNIA TORTILLA GROUP, INC.
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2021

CALIFORNIA TORTILLA GROUP, INC.
December 31, 2021

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Ad3ptus

Adeptus Partners, LLC
Accountants | Advisors
3311 Olney Sandy Spring Road
Olney, MD 20832
phone 301.929.9700
fax 301.929.9701
www.AdeptusCPAs.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
California Tortilla Group, Inc.

Opinion

We have audited the accompanying financial statements of California Tortilla Group, Inc. (a Maryland S corporation), which comprise the balance sheets as of December 31, 2021, 2020 and 2019, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Tortilla Group, Inc. as of December 31, 2021, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity 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 California Tortilla Group, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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 California Tortilla Group, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Offices:
Maryland
New York City
Long Island
New Jersey

Ad3ptus

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of California Tortilla Group, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about California Tortilla Group, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Adeptus Partners, LLC

ADEPTUS PARTNERS, LLC
Certified Public Accountants

Olney, Maryland
March 14, 2022

CALIFORNIA TORTILLA GROUP, INC.
BALANCE SHEETS
DECEMBER 31, 2021, 2020, AND 2019

ASSETS

	2021	2020	2019
Current assets			
Cash	$ 944,413	$ 638,471	$ 402,473
Restricted cash	186,473	209,951	184,846
Accounts receivable - trade, net of allowance for doubtful accounts of $5,000 for 2021, $7,000 for 2020, and $-0- for 2019	86,237	84,944	37,450
Accounts receivable - other	108,094	86,169	66,966
Prepaid franchise commissions	132,500	182,500	210,000
Prepaid expenses	7,988	20,136	34,557
Notes receivable - current	-	-	87,500
Total current assets	1,465,705	1,222,171	1,023,792
Property and equipment, net	26,724	27,893	33,868
Other assets			
Trademark and tradename	80,000	80,000	80,000
Related party receivable	194,765	156,027	153,340
Security deposits	8,155	8,155	8,155
Total other assets	282,920	244,182	241,495
Total assets	$ 1,775,349	$ 1,494,246	$ 1,299,155

LIABILITIES AND SHAREHOLDERS' EQUITY

	2021	2020	2019
Current liabilities			
Accounts payable	$ 52,273	$ 47,549	$ 41,213
Accrued expenses	26,324	26,095	25,183
Income taxes payable	4,316	615	-
Gift card liability	33,578	30,184	43,446
Deferred revenue	4,200	4,100	34,900
Unexpended Creative Funds	132,788	162,889	150,289
Total current liabilities	253,479	271,432	295,031
Long term liabilities			
Deferred revenue, net of current portion	216,304	261,629	266,333
Total liabilities	469,783	533,061	561,364
Shareholders' equity			
Common stock - par value $.01 per share; 10,000 shares authorized, 3,950 shares issued and outstanding	40	40	40
Additional paid in capital	469,440	469,440	469,440
Retained earnings	836,086	491,705	268,311
Total shareholders' equity	1,305,566	961,185	737,791
Total liabilities and shareholders' equity	$ 1,775,349	$ 1,494,246	$ 1,299,155

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

CALIFORNIA TORTILLA GROUP, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019

	2021	2020	2019
Income			
Royalties from franchisees	$ 1,096,622	$ 929,795	$ 1,337,059
Vendor rebates	187,628	282,357	322,988
Initial franchise fees	110,225	35,504	180,909
Transfer and other fees	-	35,000	10,000
Total income	1,394,475	1,282,656	1,850,956
Expenses			
Franchise expenses	250,596	262,757	338,923
General and administrative expenses			
Salaries and benefits	819,751	747,443	1,011,241
Occupancy and communication	122,246	121,728	121,195
Office expenses	77,084	55,694	84,318
Professional fees	48,570	44,194	72,135
Marketing and promotion	20	9,818	8,503
Total general and administrative expenses	1,067,671	978,877	1,297,392
Total expenses	1,318,267	1,241,634	1,636,315
Net income before other income and expense	76,208	41,022	214,641
Other income and (expense)			
Interest income	1,398	2,026	7,262
Depreciation and amortization	(13,299)	(10,668)	(10,943)
Government relief grants and tax credits	336,457	198,623	-
Loss on asset disposal	-	-	(351)
Total other income and (expense)	324,556	189,981	(4,032)
NET INCOME BEFORE INCOME TAXES	400,764	231,003	210,609
INCOME TAX EXPENSE	(6,383)	(7,609)	(3,464)
NET INCOME	$ 394,381	$ 223,394	$ 207,145

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

CALIFORNIA TORTILLA GROUP, INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2021, 2020 and 2019	Common Shares Issued and Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, December 31, 2018	3,950	$ 40	$ 469,440	$ (36,692)	$ 432,788
Adoption of ASU 2014-09 related to Revenue Recognition from Contracts with Customers (see Note 15)	-	-	-	277,858	277,858
Net income	-	-	-	207,145	207,145
Distributions	-	-	-	(180,000)	(180,000)
Balance, December 31, 2019	3,950	40	469,440	268,311	737,791
Net income	-	-	-	223,394	223,394
Balance, December 31, 2020	3,950	40	469,440	491,705	961,185
Net income	-	-	-	394,381	394,381
Distributions	-	-	-	(50,000)	(50,000)
Balance, December 31, 2021	3,950	$ 40	$ 469,440	$ 836,086	$ 1,305,566

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

CALIFORNIA TORTILLA GROUP, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019

	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 394,381	$ 223,394	$ 207,145
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation	13,299	10,668	10,943
Adoption of ASU 2014-09, Revenue from Contracts with Customers	-	-	277,858
Loss on asset disposal	-	-	351
Provision for doubtful accounts	35,527	18,215	-
(Increase) decrease in assets:			
Accounts receivable - trade	(29,820)	(57,478)	29,100
Accounts receivable - other	(67,663)	(30,121)	3,350
Prepaid franchise commissions	50,000	27,500	20,000
Prepaid expenses	12,148	14,421	(1,495)
Increase (decrease) in liabilities:			
Accounts payable	4,724	6,336	9,363
Accrued expenses	229	912	2,414
Income taxes payable	3,701	615	(1,539)
Gift card liability	3,394	(13,262)	(4,428)
Deferred revenue	(45,225)	(35,504)	(393,767)
Contributions of creative funds	559,601	446,544	640,179
Expenditures of creative funds	(589,702)	(433,944)	(638,943)
Net cash provided by operating activities	344,594	178,296	160,531
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from notes receivable	-	87,500	-
Purchase of equipment	(12,130)	(4,693)	(4,840)
Net cash provided by (used in) investing activities	(12,130)	82,807	(4,840)
CASH FLOWS FROM FINANCING ACTIVITIES			
Distributions	(50,000)	-	(180,000)
Net cash used in financing activities	(50,000)	-	(180,000)
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	282,464	261,103	(24,309)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	848,422	587,319	611,628
CASH AND RESTRICTED CASH, END OF YEAR	$ 1,130,886	$ 848,422	$ 587,319
Supplemental disclosures of cash flow			
Cash paid during the year for:			
Income taxes	$ 8,035	$ 7,583	$ 2,760

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

NOTE 1 – NATURE OF OPERATIONS

California Tortilla Group, Inc., (the "Company"), an S-corporation headquartered in Rockville, Maryland, was organized in 2002 and began operations in 2003. The Company was organized to develop and franchise branded food service concepts and to engage in other business activities that may be undertaken by an S Corporation under the laws of Maryland. Its income is derived primarily from franchise royalty and advertising fees, and thereafter from franchise sales, mostly in the Mid-Atlantic region of the United States.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The Company utilizes the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual method, income is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Company maintains cash balances which may exceed federally insured limits. Management does not believe that this results in any significant credit risk.

Restricted Cash

Restricted cash held at year end is part of the creative fund and is restricted for marketing and advertising activities for the benefit of the California Tortilla® restaurants, including any reasonable costs and overhead for activities related to the administration or direction of the creative fund.

Accounts Receivable and Allowance for Doubtful Accounts

The Company collects royalty and advertising fees from its franchisees at the times designated by the franchise agreement. These fees are based on a percentage of each restaurant's gross sales. Accounts receivable are stated at the total amount due less an allowance for doubtful accounts, if any. This allowance is an amount estimated by management to be adequate to absorb possible losses from the non-collection of receivables. The Company's management periodically reviews the status of these receivables for collectability.

Prepaid Franchise Commissions

The Company pays commissions to a third-party broker on signing any new franchise agreement. The expense is recognized when the new location opens, and the corresponding franchise fee revenue is recognized.

Property and equipment

Property and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts and the gain or loss is recognized. Depreciation is calculated using the straight line method over the estimated useful lives of the assets, ranging from 5 to 10 years.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

ASU 2014-09 Revenue from Contracts with Customers

In May 2014, the FASB issued Accounting Standards Update 2014-09 (ASU), Revenue from Contracts with Customers (Topic 606). The update requires an entity to recognize revenue based upon the satisfaction of a contract's performance obligations and to disclose key information about the entity's contracting arrangements. The ASU was effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. A modified retrospective approach is required. Management adopted the update and applied its provisions. See Note 15.

The Company's revenues consist mainly of royalties based on a percentage of sales and initial fees. The ASU provides that revenues are to be recognized when control of promised goods or services are transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services. The standard does not impact the Company's recognition of revenue from royalties of restaurants operated by franchisees which are recognized based on a percent of sales and recognized at the time the underlying sales occur. The standard does change the timing in which the Company recognizes initial fees from franchisees for new restaurant openings and new franchise terms. The Company's accounting policy through December 31, 2018, was to recognize initial franchise fees upon a new restaurant opening. Beginning in January 2019, a portion of the initial franchise fees have been allocated to the various performance obligations of deal execution, training, site location and store opening, and are recognized as the Company satisfies those performance obligations. The remaining initial franchise fee is recognized over the franchise term, which is generally 10 years. Any unrecognized franchise fees are recognized immediately should the franchisee terminate or abandon their franchise before the initial period has expired. See Note 14.

The Company has adopted the ASU as of January 1, 2019 using the modified retrospective method. This method allows the standard to be applied retrospectively through a cumulative catch up adjustment recognized upon adoption. As such, comparative information in the Company's financial statements has not been restated and continues to be reported under the accounting standards in effect for those periods. The cumulative adjustment recorded upon adoption of the ASU consists of a decrease in deferred revenue of $277,858 within current liabilities.

Royalties from franchisees

The Company recognizes revenue from sales-based royalties when earned, at the time the sales occur at the franchisees.

Vendor rebates

The Company recognizes revenue from vendor rebates when earned, as purchases by franchisees occur.

Transfer fees

Transfer fees are recognized once an existing franchisee completes the sale or transfer of their franchise to a third party.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company has elected to be taxed as an S Corporation under the provisions of the Internal Revenue Code. Under those provisions, the Company does not pay Federal corporate income taxes on its taxable income. Instead, the shareholders are liable for individual Federal income taxes on their respective shares of the Company's taxable income. However, the Company is still liable for corporate franchise taxes in certain states.

Management evaluates tax positions taken by the Company and recognizes a tax liability (or asset) if the Company has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed its tax positions and has concluded that as of December 31, 2021, there are no uncertain positions taken or expected to be taken that would require recognition or disclosure in the financial statements. The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Advertising

Franchisees pay advertising fees to the Company based on a percentage of their restaurant's gross sales. These fees were $530,234 during 2021, $413,192 during 2020, and $615,953 during 2019 and are recorded as contributions to the Creative Funds administered by the Company (see page 17).

Advertising costs are expensed as incurred. Advertising and related expenses administered through the Creative Fund were $589,702 in 2021, $433,944 in 2020, and $638,943 in 2019. Advertising expense of California Tortilla Group, Inc. totaled $20 in 2021, $9,818 in 2020, and $8,503 in 2019.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash. The Company places its cash with high-quality institutions and, by policy, limits the amount of credit exposure to any one institution. At times, the balances may exceed federally insured limits; however, management believes the Company is not exposed to any significant credit risk related to cash.

Compensated Absences

The Company's current vacation and sick leave policy requires eligible employees to use their leave in the year earned. Unused leave cannot be carried forward to future periods, except where required by law. No accrual for compensated absences has been recorded.

Recent Accounting Pronouncements

ASU 2016-02 Leases

In February 2016, the FASB issued Accounting Standards Update 2016-02 (ASU), Leases (Topic 842). This update requires an entity to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about the entity's leasing arrangements. The ASU is effective for annual reporting periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. A modified retrospective approach is required. Management is currently evaluating the impact of adopting the ASU on the Company's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Event Evaluation

The Company has evaluated events and transactions for potential recognition or disclosure through March 14, 2022, the date the financial statements were available to be issued.

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31st is as follows:

	2021	2020	2019
Computer and network hosting equipment	$ 29,883	$ 30,032	$ 28,493
Office furniture and fixtures	37,693	37,693	37,693
Telephone equipment	1,425	1,425	8,850
Leasehold improvements	35,074	35,074	35,074
Total	104,075	104,224	110,110
Less: accumulated depreciation and amortization	(77,351)	(76,331)	(76,242)
Property and equipment, net	$ 26,724	$ 27,893	$ 33,868

Depreciation expense totaled $13,299 in 2021, $10,668 in 2020, and $10,943 in 2019.

NOTE 4 – TRADEMARK AND TRADENAME

The Company, together with Caltort Development Corporation, a related party, purchased the Trademark giving the Company the exclusive perpetual right and license to sell, franchise, license or otherwise use the Marks and the name of "California Tortilla®" worldwide under the trade name of "California Tortilla®", together with the perpetual right and license to use within the Territory all copyrights, trademarks, labels, and other advertising media or devices adopted or used in connection with the sale of food and restaurants; subject to certain retained rights to locations existing at the time of purchase. The purchase price of these items was $200,000, of which $80,000 was allocated to the Company. The trademark and trade name are deemed to have an indefinite useful life; therefore, the value associated with the trademark and trade name will not be amortized to expense but is subject to an annual impairment review.

NOTE 5 – NOTES RECEIVABLE

In June 2016, the Company loaned $60,000 to one of its franchisees and another $30,000 to the same franchisee in February 2018, both notes receivable having an annual interest rate of 10%. These notes receivable are personally guaranteed by members of the franchisee. The outstanding balance as of December 31, 2021, 2020, and 2019 was $-0-, $-0-, and $87,500, respectfully. Accrued interest receivable related to these notes receivable, as of December 31, 2021, 2020, and 2019, was $-0-, $-0-, and $14,392, respectively.

In June 2019, the aforementioned franchise was sold to a third party which assumed $50,000 of the previous franchisee's notes receivable at an annual interest rate of 6%.

In June 2020, the note receivable was collected upon sale and transfer of the franchise to a new owner.

NOTE 6 – DEFERRED REVENUE

Generally accepted accounting principles require that income and expense relating to initial franchise fees not be recognized until the franchise had fulfilled its entire obligation to the franchisee. In following this pronouncement, the Company has included in deferred revenue the initial franchise fees paid to it by franchisees whose outlets have not yet opened, as well as revenue from the sale of gift certificates and gift cards that have not yet been redeemed. These fees were $220,504 in 2021, $265,729 in 2020, and $301,233 in 2019.

NOTE 7 – FRANCHISE OUTLETS

The Company sold one franchise during 2021, no franchises during 2020, and two franchises during 2019. As of December 31, 2021, thirty-nine restaurants were in operation; however two of these outlets are not franchises. See Note 9.

NOTE 8 – COMMON CONTROL

Several shareholders of the Company have common control of other corporations and partnerships which could result in operating results or financial position of the Company being significantly different from what would have been obtained if the companies were completely autonomous.

NOTE 9 – RELATED PARTIES

The Company acquired the rights to the California Tortilla® system in 2003. As part of the acquisition, the Company acquired the trademarks, the right to license future restaurants, and future contingent rights to three existing agreements pertaining to the operation of three California Tortilla® restaurants. One of these restaurants was sold in 2006 and is now owned and operated by a franchisee subject to a franchise agreement. One restaurant is operated by an entity at least partly owned by shareholders and officers of the Company. Caltort Development Corporation purchased the remaining restaurant. Four additional restaurants are owned by another related party, Caltort Development Corporation. The one restaurant to which the Company has contingent rights, as well as the four remaining restaurants owned by Caltort Development Corporation, do not operate under franchise agreements with the Company but operate within the same operational guidelines as franchised units.

In addition to the related party restaurant ownership, a related party reimburses the Company for a portion of its office rent (see Note 13). Also, the Company carries its business, workers compensation insurance, and health insurance through combined policies with other related parties. A net amount (after employee payroll deductions for a portion of health insurance) of $13,435 was paid to related parties for insurance during 2021. During 2020 and 2019 such amounts were $26,188 and $25,097, respectively.

Caltort Development Corporation provides training services to the Company for which they were paid a fee of $58,100, $62,412 and $56,000 for the years ended December 31, 2021, 2020 and 2019, respectively.

During 2016, the Company began receiving a monthly office expense reimbursement from Caltort Development of $500 per month. The total for office expense reimbursement included in office expense for December 31, 2021, 2020 and 2019, is $6,000 for each year.

Amounts due to the Company from related parties as of December 31, 2021, 2020, and 2019, were $194,765, $156,027, and $153,340, respectively.

NOTE 10 – GUARANTEES

Effective in January 2019, the Company provided direct guarantees for a letter of credit of an affiliated company. The amount guaranteed by the Company is $386,682.

During 2018, the Company paid $25,000 for a franchisee's lease obligation. Pursuant to the agreements in existence at the time of default, the Company is contractually indemnified to recover the payment from the defaulting franchisee. The Company settled with the franchisee's guarantors during 2020.

As a result, the Company believes that its estimated exposure on these guarantees is currently minimal. Accordingly, there are no amounts recorded as liabilities for the Company's obligations under these guarantees. The Company would be required to perform under the terms of the guarantees should the affiliated company be in default of its loan terms, generally for the full amounts outstanding.

NOTE 11 – RETIREMENT PLAN

The Company adopted a 401(k) retirement plan covering qualified employees meeting minimum age and service requirements. Participants may elect to defer up to the statutory legal limits. The Company made matching contributions of $33,999, $27,444, and $24,514 for the years ended December 31, 2021, 2020 and 2019, respectively.

NOTE 12 – CONTINGENCIES

From time to time, the Company may become involved in legal claims arising in the normal course of its activities. As of the date of this report, there exist no such claims. In the opinion of management, the outcome of any legal proceedings would be covered by the Company's insurance policies subject to normal deductibles, and accordingly would not have a material effect on its financial position or results of operations.

NOTE 13 – LEASE COMMITMENT

In July 2017, the Company entered into a lease agreement for new office space which became effective in December 2017. The lease is for a term of five years and calls for minimum monthly payments of $8,155, with annual increases of 3%. The Company is also responsible for paying its proportionate share of common area maintenance and operating expenses. Sublease income is collected from a related party based on a verbal agreement.

Minimum future annual lease payments and sublease income as of December 31, 2021 is as follows:

	Base Office Rent	Sublease Income	Net Rental Cost
2022	$ 110,142	$ (6,000)	$ 104,142

Net rental expense is $104,056, $98,320 and $94,796, for the years ended December 31, 2021, 2020 and 2019, respectively.

NOTE 14 – INITIAL FRANCHISE FEES

Revenue recognized from initial franchise fees during the years ended December 31, 2021, 2020, and 2019 respectively.

	2021	2020	2019
At a point in time	$ 90,500	$ 32,000	$ 143,000
Over time	19,725	3,504	37,909
Total	$ 110,225	$ 35,504	$ 180,909

NOTE 15 – ADOPTION OF ASU 2014-09

As a result of adopting ASU 2014-09, Revenue from Contracts with Customers, the Company has applied the modified retrospective approach for previous years' financial information by recording one adjustment to retained earnings in 2019. The cumulative adjustment reflected in the accompanying financial statements for deferred revenue and initial franchise fees from previous years consists of the following:

As of and for the year ended December 31:

2017	$ 270,199
2018	7,659
Total	$ 277,858

NOTE 16 – UNCERTAINTIES

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. The Company has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for personnel (such as social distancing and working from home) and securing the supply of materials that are essential.

At this stage, the impact on the business and results has not been significant and based on experience to date is expected to remain the case. As the Company operates in the food service industry servicing the general public in multiple states, the Company has found the demand for its products recovering and expects this to continue. The Company will continue to follow the various government policies and advice and, in parallel, will do the utmost to continue operations in the best and safest way possible without jeopardizing the health of its personnel.

On April 16, 2020, the Company obtained a loan under the U.S. Small Business Administration Paycheck Protection Program (the "Program") for $188,623. The term of the loan is 24 months and the interest rate is fixed at 1% per year. Principal and interest payments are deferred for six months with $8,061 due monthly beginning May 2022. Management has applied for and received approval for complete loan forgiveness under the Program and, accordingly, the loan has been recorded as government relief grants in the accompanying statement of income for the year ended December 31, 2020.

NOTE 16 – UNCERTAINTIES (Continued)

In February 2021, the Company obtained a second loan under the U.S. Small Business Administration Paycheck Protection Program (the "Program") for $188,623. The term of the loan is 24 months and the interest rate is fixed at 1% per year. Principal and interest payments are deferred for six months with $8,061 due monthly beginning March 2023. Management has applied for and received approval for complete loan forgiveness under the Program and, accordingly, the loan has been recorded as government relief grants in the accompanying statement of income for the year ended December 31, 2021.

During 2021, the Company obtained Employee Retention Credits of $147,834. Management has recorded the credits as government relief grants and tax credits in the accompanying statement of income for the year ended December 31, 2021. As of December 31, 2021, the amount of Employee Retention Credits in accounts receivable other is $40,000.

Ad3ptus

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Shareholders of
California Tortilla Group, Inc.

We have audited the financial statements of California Tortilla Group, Inc. as of and for the years ended December 31, 2021, 2020, and 2019 and our report thereon dated March 14, 2022, which expressed an unmodified opinion on those financial statements, appears on page pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Statements of Creative Funds Administered and Statements of Creative Funds Administered Activities are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.

Adeptus Partners, LLC

ADEPTUS PARTNERS, LLC
Certified Public Accountants

Olney, Maryland
March 14, 2022

Offices:
Maryland
New York City
Long Island
New Jersey

CREATIVE FUNDS ADMINISTERED BY
CALIFORNIA TORTILLA GROUP, INC.
STATEMENTS OF CREATIVE FUNDS ADMINISTERED
DECEMBER 31, 2021, 2020, AND 2019

ASSETS

	2021	2020	2019
Current assets			
Cash	$ 186,473	$ 209,951	$ 184,846
Accounts receivable	18,144	14,501	28,073
Total current assets	204,617	224,452	212,919
Total assets	$ 204,617	$ 224,452	$ 212,919

LIABILITIES AND UNEXPENDED CREATIVE FUNDS

	2021	2020	2019
Current liabilities			
Accounts payable	$ 38,251	$ 31,379	$ 19,184
Gift card liability	33,578	30,184	43,446
Total liabilities	71,829	61,563	62,630
Unexpended creative funds	132,788	162,889	150,289
Total liabilities and unexpended creative funds	$ 204,617	$ 224,452	$ 212,919

The accompanying notes are an integral part of this supplementary information.

CREATIVE FUNDS ADMINISTERED BY
CALIFORNIA TORTILLA GROUP, INC.
STATEMENTS OF CREATIVE FUNDS ADMINISTERED ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019

	2021	2020	2019
REVENUES			
Advertising fund contributions	$ 530,234	$ 413,192	$ 615,953
Vendor rebates	5,178	9,147	-
Corporate contributions	24,000	24,000	24,000
Interest income	189	205	226
Total revenues	559,601	446,544	640,179
EXPENSES			
Advertising and promotions	222,553	188,782	260,150
Advertising agency fees	45,120	3,778	11,063
Media marketing fees	35,139	84,000	84,714
Public relations	20,668	16,600	27,992
Office and administrative expenses	248,662	135,137	198,930
Website expenses	8,456	4,595	8,124
Brand development	9,104	1,052	47,970
Total expenses	589,702	433,944	638,943
Excess of Creative Funds revenues over expenses	$ (30,101)	$ 12,600	$ 1,236

The accompanying notes are an integral part of this supplementary information.

EXHIBIT K
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EXHIBIT L
<u>STATE-SPECIFIC DISCLOSURES</u>

1. Maryland

2. New York

Maryland Disclosure

In recognition of the requirements of the Maryland Franchise Registration and Disclosure Law, the Franchise Disclosure Document for California Tortilla Group, Inc. for use in the State of Maryland shall be amended as follows:

1. Item 17, "Renewal, Termination, Transfer and Dispute Resolution," shall be amended by the addition of the following language:

> The general releases required for renewal or transfer will not apply with respect to any claim you may have which arises under the Maryland Franchise Registration and Disclosure Law.
>
> The Franchise Agreement permits you to sue only in the jurisdiction in which we maintain our principal place of business (which is currently, Maryland), except with respect to claims arising under the Maryland Franchise Registration and Disclosure Law, and for those claims, you may file suit in Maryland.
>
> Any and all claims arising under the Maryland Franchise Registration and Disclosure Law must be commenced within three years from the grant of the franchise.

2. Exhibit O, "Franchisee Compliance Certification," shall be amended by the addition of the following at the end of Exhibit O:

> The representations under this Franchisee Compliance Certification are not intended, nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

3. Each provision of this addendum to the disclosure document shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law are met independently without reference to this addendum to the disclosure document

New York Disclosure

ADDITIONAL RISK FACTORS:

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT C OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW, BUREAU OF INVESTOR PROTECTION AND SECURITIES, 28 LIBERTY, 21ST FLOOR, NEW YORK, NEW YORK 10005.

THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE PROSPECTUS. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS PROSPECTUS.

In recognition of the requirements of the New York General Business Law, Article 33, Sections 680 through 695, and of the regulations promulgated thereunder (N.Y. Comp. Code R. & Regs. tit. 13, §§ 200.1 through 201.16), the Uniform Franchise disclosure document for California Tortilla Group, Inc. for use in the State of New York shall be amended as follows:

1. The last sentence of Item 3, "Litigation," shall be deleted in its entirety, and the following language shall be substituted in its place:

> Neither we, nor any of our predecessors, nor any person identified in Item 2 above, nor any affiliate offering franchises under our trademark, has any administrative, criminal, or a material civil or arbitration action (or a significant number of civil or arbitration actions irrespective of materiality) pending against him alleging a violation of any franchise law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property, or comparable allegations.
>
> Neither we, nor any of our predecessors, nor any person identified in Item 2 above, nor any affiliate offering franchises under our trademark, has been convicted of a felony or pleaded *nolo contendere* to any other felony charge or, during the ten-year period immediately preceding the application for registration, been convicted of a misdemeanor or pleaded *nolo contendere* to any misdemeanor charge or been found liable in an arbitration proceeding or a civil action by final judgment, or been the subject of any other material complaint or legal or arbitration proceeding if such misdemeanor conviction or charge, civil action, complaint, or other such proceeding involved a violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property, or comparable allegation.
>
> Neither we, nor any of our predecessors, nor any person identified in Item 2 above, nor any affiliate offering franchises under our trademark, is subject to any currently effective injunctive or restrictive order or decree relating to franchises, or under any federal, state, or Canadian franchise, securities, antitrust, trade regulation, or trade practice law as a result of a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a franchise as a real estate broker or sales agent.

2. The paragraph under Item 4, "Bankruptcy" is deleted in its entirety and the following language substituted in its place:

> Neither the franchisor, nor any predecessor or current officer of the Franchisor, during the ten-year period immediately preceding the date of this disclosure document, has filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; obtained a discharge of its debts under the bankruptcy code; or was a principal officer in a company, or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S.

Bankruptcy Code during or within one year of the time that the officer or general partner held this position in the company or partnership.

3. Item 17, "Renewal, Termination, Transfer and Dispute Resolution," shall be amended by deleting rows d, j, and w, and the following new rows d, j, and w shall be substituted in their place:

Provision	Section in Franchise Agreement	Summary
d. Termination by you	Not Applicable	Pursuant to New York General Business Law, the franchisee may terminate the Agreement upon any grounds available by law.
j. Assignment of contract by us	§ 12.1 in Franchise Agreement	There are no limits on our right to sign the Franchise Agreement. No assignment will be made except to an assignee who, in Franchisor's judgment, is willing and able to assume the Franchisor's obligation under the Franchise Agreement.
w. Choice of law	§ 23.1 in Franchise Agreement	Maryland. The foregoing choice of law should not be considered as a waiver of any right conferred upon the franchisor or the franchisee by the General Business Law of the State of New York, Article 33.

4. There are circumstances in which an offering made by us would not fall within the scope of the New York General Business Law, Article 33, such as when the offer and acceptance occurred outside the state of New York. However, an offer or sale is deemed made in New York if the franchisee is domiciled in or the franchise will be opened in New York. We are required to furnish a New York prospectus to every prospective franchisee who is protected under the New York General Business Law, Article 33.

STATEMENT OF DISCLOSURE DOCUMENT ACCURACY

THE FRANCHISOR REPRESENTS THAT THIS DISCLOSURE DOCUMENT DOES NOT KNOWINGLY OMIT ANY MATERIAL FACT OR CONTAIN ANY UNTRUE STATEMENT OF A MATERIAL FACT.

EXHIBIT M
STATE-SPECIFIC AGREEMENT AMENDMENTS

1. Maryland

2. New York

<u>Maryland Franchise Amendment</u>

In recognition of the requirements of the Maryland Franchise Registration and Disclosure Law, the parties to the attached California Tortilla Franchise Agreement (the "Agreement") agree as follows:

1. Section 2.2.8 of the Agreement, under the heading "Term and Renewal," shall be deleted in its entirety and shall have no force or effect, and the following shall be substituted in its place:

> 2.2.8 Franchisee shall execute a general release, in a form prescribed by Franchisor, of any and all claims against Franchisor and its subsidiaries and affiliates, and their respective officers, directors, agents, and employees, excluding only such claims as Franchisee may have under the Maryland Franchise Registration and Disclosure Law (Md. Code Bus. Reg. §§ 14-201 through 14-233); and

2. Section 12.4.1 of the Agreement, under the heading "Transfer Of Interest," shall be deleted in its entirety and shall have no force or effect, and the following shall be substituted in its place:

> 12.4.1. The transferor shall have executed a general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor and its affiliates, successors, and assigns, and their respective directors, officers, shareholders, partners, agents, representatives, servants, and employees in their corporate and individual capacities, including, without limitation, claims arising under this Agreement, any other agreement between Franchisee and Franchisor or its affiliates, and federal , state, and local laws and rules, excluding only such claims as the transferor may have under the Maryland Franchise Registration and Disclosure Law (Md. Code Bus. Reg. §§ 14-201 through 14-233);

3. Sections 23.2 and 23.7 of the Agreement, under the Sections "Venue" and "Limitations of Actions," shall be deleted in their entirety, and shall have no force or effect; and the following shall be substituted in their place:

> 23.2 <u>Venue.</u> Subject to Section 23.3 below, the parties agree that any action brought by Franchisee against Franchisor in any court, whether federal or state, shall be brought within such state and in the judicial district in which Franchisor has its principal place of business (except with respect to claims arising under the Maryland Franchise Registration and Disclosure Law, which may be brought in Maryland even if Franchisor's principal place of business is not in Maryland). Any action brought by Franchisor against Franchisee in any court, whether federal or state, may be brought within the state and judicial district in which Franchisor has its principal place of business. The parties agree that this Section 23.2 shall not be construed as preventing either party from removing an action from state to federal court; provided, however, that the venue shall be as set forth above. Franchisee and its Principals hereby waive all questions of personal jurisdiction or venue for the purpose of carrying out this provision. Any such action shall be conducted on an individual basis, and not as part of a consolidated, common, or class action.
>
> 23.7 **<u>Limitations of Actions.</u>** **ANY AND ALL CLAIMS AND ACTIONS ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE RELATIONSHIP OF FRANCHISEE AND FRANCHISOR, OR FRANCHISEE'S OPERATION OF THE FRANCHISED RESTAURANT, INCLUDING ANY PROCEEDING, OR ANY CLAIM IN ANY PROCEEDING (INCLUDING ANY DEFENSES AND ANY CLAIMS OF SET-OFF OR RECOUPMENT), MUST BE BROUGHT OR ASSERTED BEFORE THE EXPIRATION OF THE EARLIER OF (A) THE TIME PERIOD FROM BRINGING AN ACTION UNDER**

ANY APPLICABLE STATE OR FEDERAL STATUTE OF LIMITATIONS; (B) ONE (1) YEAR FROM THE DATE UPON WHICH A PARTY DISCOVERED, OR SHOULD HAVE DISCOVERED, THE FACTS GIVING RISE TO AN ALLEGED CLAIM; OR (C) TWO (2) YEARS AFTER THE FIRST ACT OR OMISSION GIVING RISE TO AN ALLEGED CLAIM; OR IT IS EXPRESSLY ACKNOWLEDGED AND AGREED BY ALL PARTIES THAT SUCH CLAIMS OR ACTIONS SHALL BE IRREVOCABLY BARRED; EXCEPT THAT ANY AND ALL CLAIMS ARISING UNDER THE MARYLAND FRANCHISE REGISTRATION AND DISCLOSURE LAW (MD. CODE BUS. REG. §§ 14-201 THROUGH 14-233) SHALL BE COMMENCED WITHIN THREE (3) YEARS FROM THE GRANT OF THE FRANCHISE. CLAIMS OF FRANCHISOR ATTRIBUTABLE TO UNDERREPORTING OF SALES, AND CLAIMS OF THE PARTIES FOR FAILURE TO PAY MONIES OWED AND/OR INDEMNIFICATION SHALL BE SUBJECT ONLY TO THE APPLICABLE STATE OR FEDERAL STATUTE OF LIMITATIONS.

4. Section 24 of the Agreement, under the heading "Acknowledgments," shall be supplemented by the following:

24.9 No Waiver. The foregoing acknowledgments are not intended to nor shall they act as a release, estoppel or waiver of any liability under the Maryland Franchise Registration and Disclosure Law.

24.10 Franchisee Compliance Certification. The Franchise Compliance Certification is not intended to, and shall not act, as a release, estoppel or waiver of any liability under the Maryland Franchise Registration and Disclosure Law.

5. Each provision of this amendment shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law are met independently without reference to this amendment.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Maryland amendment to the Franchise Agreement on the same date as the Franchise Agreement was executed.

California Tortilla Group, Inc.__________	____
Franchisor	Franchisee
By:________________________________	By:________________________________
Name:______________________________	Name:______________________________
Title:_______________________________	Title:_______________________________

Maryland Area Development Agreement Amendment

In recognition of the requirements of the Maryland Franchise Registration and Disclosure Law, Md. Code Bus. Reg. §§ 14-201 through 14-233, the parties to the attached California Tortilla Area Development Agreement (the "Agreement") agree as follows:

1. Section 7.4.1 of the Agreement, under the heading "Transfers," shall be deleted in its entirety and shall have no force or effect, and the following shall be substituted in its place:

> 7.4.1. The transferor shall have executed a general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor and its affiliates, successors, and assigns, and their respective directors, officers, shareholders, partners, agents, representatives, servants, and employees in their corporate and individual capacities including, without limitation, claims arising under this agreement, and any other agreement between Developer and Franchisor or its affiliates, and federal, state, and local laws and rules, excluding only such claims as the transferor may have under the Maryland Franchise Registration and Disclosure Law (Md. Code Bus. Reg. §§ 14-201 through 14-233);

2. Sections 15.2 and 15.7 of the Agreement, under the Sections "Venue" and "Limitations of Actions," shall be deleted in their entirety, and shall have no force or effect; and the following shall be substituted in their place:

> 15.2 Venue. Subject to Section 15.3 below, the parties agree that any action brought by Franchisee against Franchisor in any court, whether federal or state, shall be brought within such state and in the judicial district in which Franchisor has its principal place of business at the time the action is commenced (except with respect to claims arising under the Maryland Franchise Registration and Disclosure Law, which may be brought in Maryland even if Franchisor's principal place of business is not in Maryland). Any action brought by Franchisor against Developer in any court, whether federal or state, may be brought within the state and judicial district in which Franchisor has its principal place of business at the time the action is commenced. The parties agree that this Section 15.2 shall not be construed as preventing either party from removing an action from state to federal court. Developer hereby waives all questions of personal jurisdiction or venue for the purpose of carrying out this provision. Any such action shall be conducted on an individual basis, and not as part of a consolidated, common, or class action.

> 15.7 **Limitations of Actions. ANY AND ALL CLAIMS AND ACTIONS ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE RELATIONSHIP OF DEVELOPER AND FRANCHISOR, OR DEVELOPER'S OPERATION OF THE BUSINESS CONTEMPLATED HEREUNDER, ANY PROCEEDING, OR ANY CLAIM IN ANY PROCEEDING (INCLUDING ANY DEFENSES OR ANY CLAIMS OF SET-OFF OR RECOUPMENT) MUST BE BROUGHT OR ASSERTED BEFORE THE EXPIRATION OF THE EARLIER OF (A) THE TIME PERIOD FROM BRINGING AN ACTION UNDER ANY APPLICABLE STATE OR FEDERAL STATUTE OF LIMITATIONS; (B) ONE (1) YEAR FROM THE DATE UPON WHICH A PARTY DISCOVERED, OR SHOULD HAVE DISCOVERED, THE FACTS GIVING RISE TO AN ALLEGED CLAIM; OR (C) TWO (2) YEARS AFTER THE FIRST ACT OR OMISSION GIVING RISE TO AN ALLEGED CLAIM; OR IT IS EXPRESSLY ACKNOWLEDGED AND AGREED BY ALL PARTIES THAT SUCH CLAIMS OR ACTIONS SHALL BE IRREVOCABLY BARRED; EXCEPT THAT ANY AND ALL CLAIMS ARISING UNDER THE MARYLAND FRANCHISE REGISTRATION AND DISCLOSURE LAW (MD. CODE BUS. REG. §§ 14-201 THROUGH 14-233) SHALL BE COMMENCED WITHIN**

THREE (3) YEARS FROM THE GRANT OF THE FRANCHISE. CLAIMS OF FRANCHISOR ATTRIBUTABLE TO UNDERREPORTING OF SALES, AND CLAIMS OF THE PARTIES FOR FAILURE TO PAY MONIES OWED AND/OR INDEMNIFICATION SHALL BE SUBJECT ONLY TO THE APPLICABLE STATE OR FEDERAL STATUTE OF LIMITATIONS.

4. Section 16 of the Agreement, under the heading "Acknowledgments," shall be supplemented by the following:

16.10 No Waiver. The foregoing acknowledgments are not intended to nor shall they act as a release, estoppel or waiver of any liability under the Maryland Franchise Registration and Disclosure Law.

16.11 Franchisee Compliance Certification. The Franchise Compliance Certification is not intended to, and shall not act, as a release, estoppel or waiver of any liability under the Maryland Franchise Registration and Disclosure Law.

5. Each provision of this amendment shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law (Md. Code Bus. Reg. §§ 14-201 through 14-233) are met independently without reference to this amendment.

California Tortilla Group, Inc.	________________________________
Franchisor	Developer
By: ____________________________	By: ____________________________
Name: ____________________________	Name: ____________________________
Title: ____________________________	Title: ____________________________

<u>**New York Franchise Agreement Amendment**</u>

In recognition of the requirements of the New York General Business Law, Article 33, Sections 680 through 695, and of the regulations promulgated thereunder (N.Y. Comp. Code R. & Regs., tit. 13, §§ 200.1 through 201.16), the parties to the attached California Tortilla Franchise Agreement (the "Agreement") agree as follows:

1. Section 2.2.8 of the Agreement, under the heading "Term and Renewal," shall be deleted in its entirety, and shall have no force or effect; and the following paragraph shall be substituted in its place:

> 2.2.8 Franchisee shall execute a general release, in a form prescribed by Franchisor, of any and all claims against Franchisor and its subsidiaries and affiliates, and their respective officers, directors, agents, and employees, provided, however, that all rights enjoyed by Franchisee and any causes of action arising in its favor from the provisions of New York General Business Law Sections 680-695 and the regulations issued thereunder, shall remain in force; it being the intent of this provision that the non-waiver provisions of N.Y. Gen. Bus. Law Sections 687.4 and 687.5 be satisfied; and

2. Section 12.4.1 of the Agreement, under the heading "Transfer of Interest," shall be deleted in its entirety, and shall have no force or effect; and the following paragraph shall be substituted in its place:

> 12.4.1 The transferor shall have executed a general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor and its affiliates, successors, and assigns, and their respective directors, officers, shareholders, partners, agents, representatives, servants, and employees in their corporate and individual capacities, including, without limitation, claims arising under this Agreement, any other agreement between Franchisee and Franchisor or its affiliates, and federal , state, and local laws and rules, provided, however, that all rights enjoyed by the transferor and any causes of action arising in its favor from the provisions of New York General Business Law Sections 680-695 and the regulations issued thereunder, shall remain in force; it being the intent of this provision that the non-waiver provisions of N.Y. Gen. Bus. Law Sections 687.4 and 687.5 be satisfied;

3. Section 15.9 of the Agreement, under the Section "Covenants," shall be deleted in its entirety, and shall have no force or effect; and the following paragraph shall be substituted in its place:

> 15.9 <u>Irreparable Injury</u>. Franchisee acknowledges that Franchisee's violation of the terms of this Section 15 would result in irreparable injury to Franchisor for which no adequate remedy at law may be available, and Franchisee accordingly agrees that Franchisor may seek an injunction prohibiting any conduct by Franchisee in violation of the terms of this Section 15.

4. Section 23.5 of the Agreement, under the Section "Injunctive Relief," shall be deleted in its entirety, and shall have no force or effect; and the following paragraph shall be substituted in lieu thereof:

> 23.5 <u>Injunctive Relief.</u> Nothing herein contained shall bar Franchisor's right to seek injunctive relief against threatened conduct that shall cause it loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions.

5. Section 23 of the Agreement, under the heading "Applicable Law and Dispute Resolution," shall be supplemented by the addition of the following new Section 23.9:

> 23.9 No Waiver. Nothing in this Agreement should be considered a waiver of any right conferred upon Franchisee by New York General Business Law, Sections 680-695.

6. There are circumstances in which an offering made by Franchisor would not fall within the scope of the New York General Business Law, Article 33, such as when the offer and acceptance occurred outside the state of New York. However, an offer or sale is deemed made in New York if Franchisee is domiciled in or the franchise will be opening in New York. Franchisor is required to furnish a New York prospectus to every prospective franchisee who is protected under the New York General Business Law, Article 33.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this New York amendment to the Franchise Agreement on the same date as the Franchise Agreement was executed.

California Tortilla Group, Inc.	______________________
Franchisor	Franchisee
By:______________________	By:______________________
Name:______________________	Name:______________________
Title:______________________	Title:______________________

New York Area Development Agreement Amendment

In recognition of the requirements of the New York General Business Law, Article 33, Sections 680 through 695, and of the regulations promulgated thereunder (N.Y. Comp. Code R. & Regs., tit. 13, §§ 200.1 through 201.16), the parties to the attached California Tortilla Area Development Agreement (the "Agreement") agree as follows:

1. Section 7.4.1 of the Agreement, under the heading "Transfers," shall be deleted in its entirety, and shall have no force or effect; and the following paragraph shall be substituted in its place:

> 7.4.1 The transferor shall have executed a general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor and its officers, directors, 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 all rights enjoyed by the transferor and any causes of action arising in its favor from the provisions of New York General Business Law Sections 680-695 and the regulations issued thereunder, shall remain in force; it being the intent of this provision that the non-waiver provisions of N.Y. Gen. Bus. Law Sections 687.4 and 687.5 be satisfied;

2. Section 8.9 of the Agreement, under the Section "Irreparable Injury," shall be deleted in its entirety, and shall have no force or effect; and the following paragraph shall be substituted in its place:

> 8.9 Irreparable Injury. Developer acknowledges that Developer's violation of the terms of this Section 8 would result in irreparable injury to Franchisor for which no adequate remedy at law may be available, and Developer accordingly agrees that Franchisor may seek an injunction prohibiting any conduct by Developer in violation of the terms of this Section 8.

3. Section 15.5 of the Agreement, under the Section "Injunctive Relief," shall be deleted in its entirety, and shall have no force or effect; and the following paragraph shall be substituted in lieu thereof:

> 15.5 Injunctive Relief. Nothing herein contained shall bar Franchisor's right to seek injunctive relief against threatened conduct that shall cause it loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions.

4. Section 15 of the Agreement, under the heading "Applicable Law," shall be supplemented by the addition of the following new Section 15.9:

> 15.9 No Waiver. Nothing in this Agreement should be considered a waiver of any right conferred upon Franchisee by New York General Business Law, Sections 680-695.

5. There are circumstances in which an offering made by Franchisor would not fall within the scope of the New York General Business Law, Article 33, such as when the offer and acceptance occurred outside the state of New York. However, an offer or sale is deemed made in New York if Developer is domiciled in or the franchise will be opening in New York. Franchisor is required to furnish a New York prospectus to every prospective franchisee or developer who is protected under the New York General Business Law, Article 33.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this New York amendment to the Area Development Agreement on the same date as the Area Development Agreement was executed.

California Tortilla Group, Inc.	___________________________________
Franchisor	Developer
By: _______________________________	By: _______________________________
Name: _____________________________	Name: _____________________________
Title: ______________________________	Title: ______________________________

EXHIBIT N
RELEASE AGREEMENT

The following is our current general release agreement that we expect to include in a release that a franchisee, developer, and/or transferor may sign as part of a renewal or an approved transfer. We may, in our sole discretion, periodically modify the release agreement.

General Release

THIS GENERAL RELEASE (the "**Release**") is made and entered into on this _______day of ________________, 20___ (the "**Effective Date**"), by and between:

- California Tortilla Group, Inc., a Maryland corporation whose principal place of business is 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854 ("**Franchisor**"); and

- ____
____________________________________a [resident of] [corporation organized in] [limited liability company organized in] _________________and having offices at ______________________
____
[("**Franchisee**")] [("**Developer**")] [("**Transferor**")].

BACKGROUND:

A. Franchisor and Franchisee are party to a Franchise Agreement dated ________________ (the "**Franchise Agreement**");

B. Franchisor and Franchisee have agreed, pursuant to the Franchise Agreement, [to renew or extend Franchisee's rights under the Franchise Agreement (the "**Renewal Transaction**")] [to permit a transfer or assignment of ______________ pursuant to Section 12 of the Franchise Agreement (the "**Transfer Transaction**")], and in connection with the [Renewal Transaction] [Transfer Transaction], Franchisor and [Franchisee] [Developer][Transferor] have agreed to execute this Release, along with such other documents related to the approved [Renewal Transaction] [Transfer Transaction].

NOW, THEREFORE, the parties, in consideration of the undertakings and commitments of each party to the other party set forth herein, hereby agree as follows:

1. <u>Release</u>. [Franchisee] [Developer] [Transferor], its officers and directors, its owners, guarantors, and their respective agents, heirs, administrators, successors, and assigns (the "**Franchisee Group**"), hereby forever release and discharge, and forever hold harmless Franchisor, its current and former affiliates and predecessors, and their respective shareholders, partners, members, directors, officers, agents, representatives, heirs, administrators, successors, and assigns (the "**Franchisor Group**"), from any and all claims, demands, debts, liabilities, actions or causes of action, costs, agreements, promises, and expenses of every kind and nature whatsoever, at law or in equity, whether known or unknown, foreseen and unforeseen, liquidated or unliquidated, which the [Franchisee] [Developer] [Transferor], and/or the Franchisee Group had, have, or may have against any member of the Franchisor Group, including, without limitation, any claims or causes of action arising from, in connection with or in any way related or pertaining, directly or indirectly, to the Franchise [Development] Agreement, the relationship created by the Franchise [Development] Agreement, or the development, ownership, or operation of the California Tortilla Restaurant, excluding only such claims as the [Franchisee] [Developer] [Transferor] may have under the Maryland Franchise Registration and Disclosure Law (Md. Code Bus. Reg. §§ 14-201 through 14-233). The Franchisee Group further indemnifies and holds the Franchisor Group harmless against, and

agrees to reimburse them for any loss, liability, expense, or damages (actual or consequential) including, without limitation, reasonable attorneys', accountants', and expert witness fees, costs of investigation and proof of facts, court costs, and other litigation and travel and living expenses, which any member of the Franchisor Group may suffer with respect to any claims or causes of action which any customer, creditor, or other third party now has, ever had, or hereafter would or could have, as a result of, arising from, or under the Franchise [Development] Agreement or the California Tortilla Restaurant, but only to the extent such liability relates to actions occurring prior to the Effective Date. The Franchisee Group and its owners represent and warrant that they have not made an assignment or any other transfer of any interest in the claims, causes of action, suits, debts, agreements, or promises described herein.

[Note for California Release – add the following:
Except as set forth herein, Franchisee Group expressly relieves and relinquishes all rights and benefits afforded by Section 1542 of the Civil Code of the State of California ("Section 1542"), and does so understanding and acknowledging the significance and consequence of such specific waiver of Section 1542. Section 1542 states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH EITHER PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN ITS FAVOR AS OF THE DATE OF EXECUTION OF THIS AGREEMENT, WHICH IF KNOWN BY SUCH PARTY WOULD HAVE MATERIALLY AFFECTED THE TERMS OF THE AGREEMENT."

Notwithstanding the provisions of Section 1542, and for the purpose of implementing the general release and discharges described in this paragraph, Franchisee Group expressly acknowledges that this Release is intended to include in its effect without limitation, all claims described in this paragraph which Franchisee Group does not know or suspect to exist in its favor at the time of execution hereof, and that this Release contemplates the extinguishment of any such claims.]

[Note for Minnesota Release – add the following to Section 1, at the end of the first sentence: "and such claims arising under the Minnesota Franchises Law."]

[Note for Washington Release – add the following to Section 1, at the end of the first sentence: "and such claims arising under the Washington Franchise Investment Protection Act."]

2. General Terms.

2.1. This Release shall be binding upon, and inure to the benefit of, each party's respective heirs, representatives, successors, and assigns.

2.2. This Release may be signed in counterparts. This Release shall take effect upon its acceptance and execution by each of the parties hereto.

2.3. This Release may be executed in counterparts, and signatures exchanged by fax, and each such counterpart, when taken together with all other identical copies of this Release also signed in counterpart, shall be considered as one Release.

2.4. The captions in this Release are for the sake of convenience only, and shall neither amend nor modify the terms hereof.

2.5 The parties agree that all actions arising under this Release must be commenced in the state or federal court of general jurisdiction in Maryland, and each of the undersigned irrevocably submits to the jurisdiction of those courts and waives any objection he or she might have to either the jurisdiction of or venue in those courts. This Release shall be interpreted and construed under the laws of the State of Maryland. In the event of any conflict of law, the laws of the State of Maryland shall prevail (without regard to, and without giving effect to, the application of Maryland conflict of law rules).

2.6. This Release constitutes the entire, full, and complete agreement between the parties concerning the subject matter hereof, and supersedes all prior agreements and communications concerning the subject matter hereof. No other representations have induced the parties to execute this Release. The parties agree that they have not relied upon anything other than the words of this Release in deciding whether to enter into this Release.

2.7. No amendment, change, or variance from this Release shall be binding on either party unless in writing and agreed to by all of the parties hereto.

{Signatures on next page}

IN WITNESS WHEREOF, the parties hereto have duly signed and delivered this Release in duplicate on the day and year first above written.

California Tortilla Group, Inc. Franchisor	________________________________
By:______________________________	By:______________________________
Name:____________________________	Name:____________________________
Title:_____________________________	Title:_____________________________

EXHIBIT O

MULTIPLE UNIT ADDENDUM TO CALIFORNIA TORTILLA FRANCHISE AGREEMENT

Multiple Unit Addendum to the
California Tortilla Franchise Agreement

This Multiple Unit Addendum (this "Addendum") to the California Tortilla Franchise Agreement is made and entered into on this ______ day of ______________, 20___ (the "**Effective Date**"), by and between:

- California Tortilla Group, Inc., a Maryland corporation whose principal place of business is 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854 ("**Franchisor**"); and

- ____ a [resident of] [corporation organized in] [limited liability company organized in] ___________________ and having offices at ____ ("**Franchisee**"); and

BACKGROUND

A. Franchisor and Franchisee have executed a California Tortilla Franchise Agreement dated _________________ , 20__ (the "**Franchise Agreement**"), pursuant to which Franchisee was granted the right and has undertaken the obligation to establish and operate a Restaurant [at a location to be determined in accordance with the Franchise Agreement] {or} [at the following location ________________].

B. Franchisee, or entities that are owned or controlled by Franchisee, or entities that Franchisee owns or controls, or entities under common control with Franchisee, currently own and operate at least two (2) California Tortilla Restaurants, and there are no uncured defaults under the franchise agreements for all such Restaurants. In accordance with Franchisor's current policy, Franchisee is entitled to a reduction in the Initial Franchise Fee, as provided for herein.

AGREEMENT

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Reduced Initial Franchise Fee. The first sentence of Section 4.1 is hereby deleted in its entirety, and is replaced with the following sentence:

> "Franchisee shall pay Franchisor an initial franchise fee of Twenty Thousand Dollars ($20,000) (the "**Initial Franchise Fee**"), which must be paid in full prior to or upon execution of this Agreement.

The remainder of Section 4.1 of the Franchise Agreement is unchanged.

2. Defined Terms. All capitalized terms not otherwise defined herein will have the meanings specified in the Franchise Agreement.

3. Entire Agreement. The Franchise Agreement and this Addendum constitute the entire agreement and understanding of the parties hereto with respect to the issues described herein.

4. Ratification of the Franchise Agreement. Except for the changes described in this Addendum, the terms and conditions of the Franchise Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, hereby execute this Addendum on the day and year first above written.

California Tortilla Group, Inc.	______________________________
Franchisor	Franchisee
By:______________________________	By:______________________________
Name: Robert Phillips	Name:___________________________
Title: President	Title:___________________________

EXHIBIT P
RENEWAL ADDENDUM

CALIFORNIA TORTILLA
RENEWAL ADDENDUM

THIS RENEWAL ADDENDUM (the "**Renewal Addendum**") is made and entered into on this ______ day of _______________, 20___ (the "**Renewal Addendum Effective Date**"), by and between:

- California Tortilla Group, Inc., a Maryland corporation whose principal place of business is 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854 ("**Franchisor**"); and

- a [resident of] [corporation organized in] [limited liability company organized in] __________________________________ and having offices at ______________________ __________________________________("**Franchisee**").

RECITALS

A. Franchisor and Franchisee are parties to a Franchise Agreement dated _________________, whose term expires on ____________________ (the "**Old Franchise Agreement**").

B. Franchisee wishes to renew its relationship with Franchisor, as permitted under and pursuant to Section 2.2 of the Old Franchise Agreement, and Franchisee entered into a new Franchise Agreement, of even date herewith ("**Renewal Franchise Agreement**") with Franchisor for that purpose.

C. Franchisee and Franchisor wish to amend the Renewal Franchise Agreement to reflect Franchisee's status as an existing Franchisee renewing an ongoing relationship.

D. All capitalized terms not otherwise defined in this Renewal Addendum shall have the same meaning as in the Renewal Franchise Agreement.

AGREEMENT

In consideration of the mutual promises contained in this Renewal Addendum, the Franchisee and Franchisor agree and contract as follows:

1. Section 2.1 of the Renewal Franchise Agreement is hereby amended to provide that the term of the Renewal Franchise Agreement shall be:

[Note to Drafter: Check one of the following boxes.]

☐ ten (10) years from the effective date of the Renewal Franchise Agreement; or
☐ __________________, which is equal to the remaining term of the lease for the Restaurant premises, including all applicable extensions or renewals,

which may be referred to herein and in the Renewal Franchise Agreement as either the "**term**" or the "**Renewal Term.**"

2. Section 2.1 is hereby further amended to provide that:

[Note to Drafter: Check one of the following boxes.]

[Check this box if this is the first renewal term, and there is one more remaining.]

☐ Franchisee may, at its option, renew Franchisee's right to operate the Restaurant for one (1) additional term, which shall be the lesser of (a) ten (10) years or (b) the remaining term of the lease for the Restaurant premises, including all applicable extensions or renewals, subject to the conditions described in Section 2.2 of the Renewal Franchise Agreement; or

[Check this box if this is the second renewal term and there are no further renewal terms.]

☐ At the end of the term (or "Renewal Term"), the Renewal Franchise Agreement and all rights thereunder will expire. Pursuant to Section 2.2 of the Old Franchise Agreement, Franchisee will not have the right to reacquire the rights granted under the Old Franchise Agreement and/or the Renewal Franchise Agreement, nor will Franchisee have any right to execute a successor Franchise Agreement to operate the Restaurant.

3. Waiver or Elimination of Certain Initial Obligations. The following sections, subsections, and/or sentences of the Renewal Franchise Agreement shall hereby be deleted, and shall have no further force or effect: the first sentence of Section 3.1 (Initial and Ongoing Assistance), Section 3.2 (Development of the Restaurant), Section 3.3 (Opening Assistance), Section 3.7 (Grand Opening Advertising Program), Section 3.9 (Inspection), Section 4.1 (Initial Franchise Fee), Section 5.2 (Pre-Opening Obligations), Section 5.3 (Development of the Restaurant), Section 5.4 (Restaurant Opening), the portions of Section 5.5 (Training) that pertain to training requirements that are only applicable prior to the opening of the Restaurant, and Section 10.8 (Grand Opening Advertising Program).

4. Renewal Franchise Fee. As required under the Old Franchise Agreement, Franchisee shall pay to Franchisor a renewal franchise fee of $__________________ on or before the effective date of the Renewal Franchise Agreement.

5. Old Franchise Agreement. The Old Franchise Agreement is hereby terminated in accordance with its terms, except for the following: (a) any provision that by its express terms or by implication survives the termination or expiration of the Old Franchise Agreement, and (b) any provision which requires Franchisee to pay any monies due to Franchisor or any affiliate of Franchisor, except for the requirement that Franchisee pay to Franchisor an initial franchise fee or other initial fee.

6. Release By Franchisee. Franchisee hereby agrees to the following:

a. Franchisee, its officers and directors, its owners, guarantors, and their respective agents, heirs, administrators, successors, and assigns (the "**Franchisee Group**"), hereby forever release and discharge, and forever hold harmless Franchisor, its current and former affiliates and predecessors, and their respective shareholders, partners, members, directors, officers, agents, representatives, heirs, administrators, successors, and assigns (the "**Franchisor Group**"), from any and all claims, demands, debts, liabilities, actions or causes of action, costs, agreements, promises, and expenses of every kind and nature whatsoever, at law or in equity, whether known or unknown, foreseen and unforeseen, liquidated or unliquidated, which the Franchisee and/or the Franchisee Group had, have, or may have against any member of the Franchisor Group, including, without limitation, any claims or causes of action arising from, in connection with or in any way related or pertaining, directly or indirectly, to the Franchise Agreement, the relationship created by the Franchise Agreement, or the development, ownership, or operation of the California Tortilla Restaurant, excluding only such claims as the Franchisee may have under the Maryland Franchise Registration and Disclosure Law (Md. Code Bus. Reg. §§ 14-201 through 14-233). The Franchisee Group further indemnifies and holds the Franchisor Group harmless against, and agrees to reimburse them for any loss, liability, expense, or damages (actual or consequential) including, without limitation, reasonable attorneys', accountants', and expert witness fees, costs of investigation and proof of facts, court costs, and other litigation and travel and living expenses, and any interest, which any member of the Franchisor Group may suffer with respect to any claims or causes of action which any customer, creditor, or other third party now has, ever had, or hereafter would or could have, as a result of, arising from, or under the Franchise Agreement or the California Tortilla Restaurant, but only to the extent such liability relates to actions occurring prior to the effective date of the Renewal Franchise Agreement.

[Note for California Release – add the following:
Except as set forth herein, Franchisee Group expressly relieves and relinquishes all rights and benefits afforded by Section 1542 of the Civil Code of the State of California ("Section 1542"), and does so understanding and acknowledging the significance and consequence of such specific waiver of Section 1542. Section 1542 states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH EITHER PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN ITS FAVOR AS OF THE DATE OF EXECUTION OF THIS AGREEMENT, WHICH IF KNOWN BY SUCH PARTY WOULD HAVE MATERIALLY AFFECTED THE TERMS OF THE AGREEMENT."

Notwithstanding the provisions of Section 1542, and for the purpose of implementing the general release and discharges described in this paragraph, Franchisee Group expressly acknowledges that this Release is intended to include in its effect without limitation, all claims described in this paragraph which Franchisee Group does not know or suspect to exist in its favor at the time of execution hereof, and that this Release contemplates the extinguishment of any such claims.]

[Note for Minnesota Release – add the following to Section 1, at the end of the first sentence: "and such claims arising under the Minnesota Franchises Law."]

[Note for Washington Release – add the following to Section 1, at the end of the first sentence: "and such claims arising under the Washington Franchise Investment Protection Act."]

b. The release in Section 6.a above does not apply to any monies which may be owed by Franchisee to Franchisor in the ordinary course of business under the Old Franchise Agreement.

c. Franchisee represents that it is the sole owner of all claims and rights released hereunder and that it has not assigned or transferred, or purported to assign or transfer, to any person or entity, any suit, claim, controversy, liability, demand, action, or cause of action released under Section 6.a above.

d. Franchisee agrees not to make any claim or take any proceedings against any other Person who might claim contribution or indemnity or assert any other claim or cause of action by any right of law from the Persons discharged by this Renewal Addendum. For the purpose of this Renewal Addendum, "**Person**" includes any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal or personal representative, regulatory body or agency, government or government agency, authority or entity however designated or constituted.

7. Acknowledgments. Franchisee acknowledges it has received a copy of this Renewal Addendum sufficiently in advance of executing it to be able to consult with counsel of Franchisee's choosing, and Franchisee acknowledges having reviewed and understood this Renewal Addendum prior to executing it. Further, Franchisee acknowledges that it received a copy of Franchisor's current form of franchise disclosure document required by the Trade Regulation Rule of the Federal Trade Commission entitled "Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures" at least fourteen (14) calendar days prior to the date the Renewal Franchise Agreement and this Renewal Addendum were executed.

8. Entire Agreement. This Renewal Addendum constitutes the entire and complete agreement between Franchisor and Franchisee concerning the subject matter hereof, and supersedes any and all prior agreements. No amendment, change, or variance from this Renewal Addendum shall be binding on either party unless mutually agreed to in a writing signed by both parties. The invalidity or unenforceability of any particular provision of this Renewal Addendum will not affect or limit the validity or enforceability of the remaining provisions.

9. Dispute Resolution. This Renewal Addendum shall be governed by the provisions for dispute resolution that are included in the Renewal Franchise Agreement.

10. Ratification of Franchise Agreement. This Renewal Addendum forms an integral part of the Renewal Franchise Agreement. Except as modified or supplemented by this Renewal Addendum, the terms of the Renewal Franchise Agreement are hereby ratified and confirmed. This Renewal Addendum shall be binding upon the parties hereto, and their respective heirs, executors, administrators, successors and assigns.

[*Signature Page Follows*]

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Renewal Addendum, understands and consents to be bound by all of its terms, and agrees it will be effective as of the date first above written.

California Tortilla Group, Inc.	____________________________
Franchisor	Franchisee
By:____________________________	By: ____________________________
Name: Robert Phillips	Name: ____________________________
Title: President	Title: ____________________________
Address for Notices:	Address for Notices:
California Tortilla Group, Inc.	____________________________
7825 Tuckerman Lane, Suite 214	____________________________
Potomac, Maryland 20854	____________________________
Telephone: (301) 545-0035	Telephone: ________________________
Fax: (301) 545-0051	Attn: ____________________________
Attn: Robert Phillips	

with a copy to:

Lathrop GPM LLP
600 New Hampshire Avenue, NW, Suite 700
Washington, DC 20037
Telephone: (202) 295-2229
Mark.Kirsch@lathropgpm.com
Fax: (202) 295-2279
Attn: Mark Kirsch, Esq.

EXHIBIT Q

FRANCHISEE COMPLIANCE CERTIFICATION

EXHIBIT Q

THE CALIFORNIA TORTILLA GROUP, INC.
FRANCHISEE COMPLIANCE CERTIFICATION

As you know, The California Tortilla Group, Inc. (the **"Franchisor"**) and you are preparing to enter into a Franchise Agreement for the establishment and operation of a "California Tortilla" franchised restaurant (the "**Restaurant**"). The purpose of this Questionnaire is to determine whether any statements or promises were made to you that the Franchisor has not authorized and that may be untrue, inaccurate or misleading. Please review each of the following questions and statements carefully and provide honest and complete responses to each.

1. The following dates and information are true and correct:

a.	______________, 20__ Initials _____________	The date of my first face-to-face meeting with any person to discuss the possible purchase of a franchise for a California Tortilla Restaurant business.
b.	______________, 20__ Initials _____________	The date on which I received the Franchisor's Franchise Disclosure Document ("**FDD**").
c.	______________, 20__ Initials _____________	The date when I received a fully completed copy (other than signatures) of the Franchise Agreement and Addenda (if any) and all other documents I later signed.
d.	______________, 20__ Initials _____________	The date on which I signed the Franchise Agreement.

2. Have you received and personally reviewed the Franchise Agreement, Area Development Agreement and each Addendum and related agreement attached to them?

Yes _____ No _____

3. Do you understand all of the information contained in the Franchise Agreement, Area Development Agreement, each Addendum and related agreement provided to you?

Yes _____ No _____

If no, what parts of the Franchise Agreement, Area Development Agreement, Addendum, and/or related agreement do you not understand? (Attach additional pages, as needed.)

____
____
____

4. Do you understand that the Franchise Agreement and Development Agreement contain a number of provisions that may affect your legal rights, including required mediation, designated locations or states for any judicial proceedings, a waiver of a jury trial, a waiver of punitive or exemplary damages, limitations on when claims may be filed, and other waivers and limitations?

Yes _____ No _____

5. Have you received and personally reviewed the FDD that was provided to you?

Yes _____ No _____

6. Did you sign a receipt for the FDD indicating the date you received it?

Yes _____ No _____

7. Do you understand all of the information contained in the FDD and any state-specific Addendum to the FDD?

Yes _____ No _____

If No, what parts of the FDD and/or Addendum do you not understand? (Attach additional pages, as needed.)

____
____
____
____

8. Have you discussed with an attorney, accountant, or other professional advisor the benefits and risks of establishing and operating a Restaurant as a franchised business?

Yes _____ No _____

If No, do you wish to have more time to do so?

Yes _____ No _____

9. Do you understand that the success or failure of your franchised Restaurant will depend in large part upon your skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease terms and other economic and business factors?

Yes _____ No _____

10. Has anyone speaking on the Franchisor's behalf made any statement or promise to you concerning the revenues, profits or operating costs of a "California Tortilla" Restaurant operated by the Franchisor or its franchisees that is different from the information contained in the FDD?

Yes _____ No _____

11. Has anyone speaking on the Franchisor's behalf made any statement or promise to you about the amount of money you may earn in operating the Restaurant that is different from the information contained in the FDD?

    Yes _____ No _____

12. Has anyone speaking on the Franchisor's behalf made any statement or promise concerning the total amount of revenue your Restaurant will or may generate that is different from the information contained in the FDD?

    Yes _____ No _____

13. Has anyone speaking on the Franchisor's behalf made any statement or promise regarding the costs you may incur in operating your Restaurant that is different from the information contained in the FDD?

    Yes _____ No _____

14. Has anyone speaking on the Franchisor's behalf made any statement or promise concerning the likelihood of success that you should or might expect to achieve from operating a Restaurant as a franchised business?

    Yes _____ No _____

15. Has anyone speaking on the Franchisor's behalf made any statement or promise, or made an agreement with you, concerning how much service and assistance the Franchisor will provide to you (for example, concerning advertising, marketing, training, and support) that is different from the information contained in the FDD?

    Yes _____ No _____

16. Have you entered into any binding agreement with the Franchisor concerning the purchase of this franchise before today?

    Yes _____ No _____

17. Have you paid any money to the Franchisor concerning the purchase of this franchise before today?

    Yes _____ No _____

18. Do you understand that the territorial rights you have been granted are subject to limitations and exceptions?

    Yes _____ No _____

19. Do you understand that the Franchise Agreement and Area Development Agreement contain the entire agreement between you and the Franchisor concerning the franchise and development rights for the Restaurant, meaning that any prior oral or written statements not set out in the Franchise Agreement and Area Development Agreement will not be binding?

Yes _____ No _____

20. If you have answered "Yes" to any of questions 10-17, please provide a full explanation of each "yes" answer in the following blank lines. (Attach additional pages, as needed, and refer to them below.) If you have answered "no" to each of questions 10-17, then please leave the following lines blank.

____
____
____
____
____
____
____
____

21. Do you acknowledge and represent to Franchisor that (a) you or the entity that you form to be a franchisee or developer will be the employer of all of your employees and will have sole discretion and authority to hire, fire, discipline, compensate and schedule working hours for, all of your employees; and (b) Franchisor and Franchisor's affiliates will have no control, or right to control, any of the employment actions or decisions in your business? *We recommend that you retain employment law counsel to advise you with your employment issues and questions.*

Yes _____ No _____

22. As you have reviewed the financial performance representations in Item 19 of the Disclosure Document, do you understand that:

a. Item 19 contains only historical data from certain franchised and affiliate-owned Restaurants, and are not a promise, assurance or guaranty of future results of your franchised Restaurant;

b. your results are likely to differ from the historical results reported;

c. your results as a start-up business and Restaurant are likely to be different than existing Restaurants; and

d. you have had ample opportunity to review Item 19 with a lawyer, accountant and/or other advisor of your choosing.

Yes _____ No _____

23. Do you understand that:

a. this franchise business may be impacted by other risks, including those outside your or our control such as local, national or global economic, political or social disruption, such as the 2020 COVID-19 outbreak?

b. such disruptions, and any preventative, protective, or remedial actions that federal, state, and local governments may take in response to a disruption may result in a period of business disruption, reduced customer demand, and reduced operations for Restaurants, and may require that we take actions that might not be contemplated under the Franchise Agreement?

c. the extent to which any such disruption impacts the California Tortilla system, and your franchise business, will depend on future developments which are highly uncertain and which we cannot predict?

Yes _____ No _____

24. I signed the Franchise Agreement, Area Development Agreement, and Addenda (if any) on ____________, 20___, and acknowledge that no Agreement or Addendum is effective until signed and dated by the Franchisor.

25. During my negotiations and evaluations leading up to my decision to buy a California Tortilla franchise, I communicated with the following individuals from California Tortilla or its affiliates, or independent brokers:

Name Address

1. ____

2. ____

3. ____

4. ____

[Insert additional names and addresses below if needed]

YOU UNDERSTAND THAT YOUR ANSWERS ARE IMPORTANT TO US AND THAT WE WILL RELY ON THEM. BY SIGNING THIS QUESTIONNAIRE, YOU ARE REPRESENTING THAT YOU HAVE CONSIDERED EACH QUESTION CAREFULLY AND RESPONDED TRUTHFULLY TO THE ABOVE QUESTIONS.

FRANCHISE APPLICANT

____
Signed

____
Printed Name

________________________________ , 20___

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:

STATES	EFFECTIVE DATE
Florida	Pending
Maryland	Pending
New York	Pending
Virginia	Pending

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

EXHIBIT R
RECEIPTS

RECEIPTS
(to be retained by prospective franchisee)

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

If California Tortilla Group, Inc. offers you a franchise, it must provide this disclosure document to you:

(a) 14 calendar days before you sign a binding agreement with, or make a payment to, us or an affiliate in connection with the proposed franchise sale, or
(b) Under New York law, if applicable, at the earlier of (i) your first personal meeting to discuss the franchise, or (ii) 10 business days before you sign a binding agreement with, or make payment to us or an affiliate in connection with the proposed franchise sale, or
(c) Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise agreement or other agreement or the payment of any consideration, whichever occurs first, or
(d) Under Iowa law, if applicable, at the earlier of the first personal meeting or 14 calendar days before the execution of the franchise agreement or other agreement or the payment of any consideration that relates to the franchise relationship.

If California Tortilla Group, Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and to the appropriate state agency listed in Exhibit C.

The franchisor is California Tortilla Group, Inc., located at 7825 Tuckerman Lane, Suite 214, Potomac, Maryland 20854. Its telephone number is: (301) 545-0035.

Issuance date: August 16, 2022.

The franchise seller is:
□ Robert Phillips, CEO or □ ____,
California Tortilla Group, Inc., 7825 Tuckerman Lane, Suite 214, Potomac, MD 20854, (301) 545-0035

Any additional individual franchise sellers involved in offering the franchise are:

____

California Tortilla Group, Inc. authorizes the respective state agencies identified on Exhibit D to receive service of process for it in the particular state.

I have received a Franchise Disclosure Document dated August 16, 2022. This disclosure document included the following exhibits:

A Franchise Agreement
B Area Development Agreement
C List of State Administrators
D Agents for Service of Process
E List of Current California Tortilla Franchisees
F List of Former California Tortilla Franchisees
G List of Affiliate-Owned California Tortilla Restaurants
H List of Area Developers
I List of Former Area Developers
J Financial Statements
K Table of Contents for Manuals
L State-Specific Disclosures
M State-Specific Agreement Amendments
N Release Agreement
O Multiple Unit Addendum to California Tortilla Franchise Agreement
P Renewal Addendum
Q Franchisee Compliance Certification
R Receipts (2 copies)
STATE EFFECTIVE DATES

____
Date Received

____
Prospective Franchisee

____
Name (please print)

Address:________________________________

RECEIPTS
(To be signed, dated, and sent to franchisor)

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

If California Tortilla Group, Inc. offers you a franchise, it must provide this disclosure document to you:

(a) 14 calendar days before you sign a binding agreement with, or make a payment to, us or an affiliate in connection with the proposed franchise sale, or

(b) Under New York law, if applicable, at the earlier of (i) your first personal meeting to discuss the franchise, or (ii) 10 business days before you sign a binding agreement with, or make payment to us or an affiliate in connection with the proposed franchise sale, or

(c) Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise agreement or other agreement or the payment of any consideration, whichever occurs first, or

(d) Under Iowa law, if applicable, at the earlier of the first personal meeting or 14 calendar days before the execution of the franchise agreement or other agreement or the payment of any consideration that relates to the franchise relationship.

If California Tortilla Group, Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and to the appropriate state agency listed in Exhibit C.

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P Renewal Addendum
Q Franchisee Compliance Certification
R Receipts (2 copies)
STATE EFFECTIVE DATES

____
Date Received

____
Prospective Franchisee

____
Name (please print)

Address:_________________________________