
FRANCHISE DISCLOSURE DOCUMENT

HOT FRIES FRANCHISING, LLC

HOT FRIES

A Limited Liability Company
5825 Lincoln Ave. Ste. D, #260
Buena Park, CA 90620
949-954-0411
www.HotFriesUSA.com



The Hot Fries franchise offers a new twist on the old fashioned French fries. Starting with the finest potatoes, sliced for maximum crispiness, the potatoes are flash-fried to a perfect golden brown, then hand-seasoned while they are hot. In addition to a wide selection of seasoned fries, the franchise offers chicken wings, nuggets, tenders, “build your own” baked potato & mashed potatoes, hot dogs, fish strips, bottled water/ beverages, milkshakes/ frozen desserts, lemonades: fresh/ frozen, fountain beverages and other incidental hot and cold beverages.

(1) The total investment necessary to begin operation of a Hot Fries franchise is \$166,997 to \$374,900. This includes the \$30,000 franchise fee that must be paid to the franchisor or affiliate.

(2) 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.**

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

(4) 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

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

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

(6) This Disclosure Document was issued on 04~~9~~/01~~5~~/2019~~8~~.

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STATE COVER PAGE

Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling in your state.

REGISTRATION OF A FRANCHISE BY A STATE DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE DEPARTMENT OF LAW OR THAT IT HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.

Call the state franchise administrator listed in Exhibit H for information about the franchisor or about franchising in your state.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

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

THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY ARBITRATION ONLY IN CALIFORNIA. OUT-OF-STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE WITH US IN CALIFORNIA THAN IN YOUR OWN STATE.

THE FRANCHISE AGREEMENT STATES THAT CALIFORNIA LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.

THE FRANCHISOR'S FINANCIAL STATEMENTS DATED 12/31/2018~~6~~, SHOW ONLY \$12,463,500 IN ASSETS WHICH IS LESS THAN THE AMOUNT OF YOUR INITIAL INVESTMENT. THIS MAY MEAN THAT THE FRANCHISOR WILL NEED TO USE THE MONEY YOU INVEST FOR ITS OWN PURPOSES AND MAY NOT HAVE THE MONEY TO DELIVER PROMISED SERVICES AND ASSISTANCE TO YOU.

~~THE FRANCHISOR HAS NOT OFFERED FRANCHISES PRIOR TO THE ISSUANCE DATE OF THIS FRANCHISE DISCLOSURE DOCUMENT. THEREFORE, THERE IS NO OPERATING HISTORY TO ASSIST YOU IN JUDGING WHETHER OR NOT TO MAKE THIS INVESTMENT.~~

THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

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The following chart lists states that require that this disclosure document be registered or filed with the state or be exempt from registration. In these states, the effective date of this disclosure document is as follows:

State	Effective Date
California	08/20/2018
Hawaii	
Illinois	
Indiana	
Maryland	
Michigan	
Minnesota	
New York	
North Dakota	
Rhode Island	
South Dakota	
Virginia	
Washington	
Wisconsin	

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EXHIBITS

- A. LIST OF STATE ADMINISTRATORS
- B. LIST OF STATE AGENTS FOR SERVICE OF PROCESS
- C. FRANCHISE AGREEMENT
- D. TABLE OF CONTENTS OF OPERATIONS MANUAL
- E. FINANCIAL STATEMENTS
- F. LIST OF CURRENT AND TERMINATED FRANCHISEES
- G. FRANCHISEE DISCLOSURE QUESTIONNAIRE
- H. MULTI-STATE ADDENDA

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Item 1: The Franchisor, and any Parents, Predecessors, and Affiliates.

(1) Hot Fries Franchising, LLC is the Franchisor with a principle business address of 5825 Lincoln Ave. Ste. D, #260, Buena Park, CA 90620 and was formed on 1/05/2015. Franchisor does not have any parents. Hot Fries, LLC is an Affiliate of Franchisor with a principal business address of 5825 Lincoln Ave. Ste. D, #260, Buena Park, CA 90620.

(2) Franchisor does not have any predecessors.

(3) Franchisor currently uses the name Hot Fries to conduct business and does not have any current plans to use other names.

(4) Franchisor's agents for service of process in California is Nishant Patel who can be reached at the principal business address of 5825 Lincoln Ave. Ste. D, #260, Buena Park, CA 90620.

(5) Franchisor is a California registered limited liability company.

(6) Franchisor:

(i) Does not operate a business of the type being franchised but Affiliate Hot Fries, LLC does.

(ii) Franchisor is not involved in any other business activities.

(iii) Franchisee will operate a business that offers a specialty hand-seasoned fry, chicken wings, nuggets, tenders, and a "build your own" loaded baked potato.

(iv) The general market for the product or service that the Franchisee will offer is typically young adults.

(v) Franchisor is not aware of any laws or regulations specific to the industry in which the franchise business operates

(vi) The competition within the industry in which the franchise business operates is competitive with other businesses that offer "grab and go" snack items but very few offer potato specialties.

(7) The Franchisor was formed for the purpose of franchising the business model offered by Affiliate, Hot Fries, LLC.

(i) Hot Fries has conducted the type of business the franchisee will operate since 2011.

(ii) Franchisor has offered franchises providing the type of business the franchisee will operate since the date of this document.

(iii) Neither Franchisor nor its Affiliate has offered franchises in any other line of business

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Item 2: Business Experience.

Nishant Patel – *Owner*

Employer	Title	Start Date	End Date	Location
Hot Fries, LLC	Owner	2011	Present	Buena Park, CA
RIIB Enterprises Inc.	Franchise Development Consultant	2004	2015	Irvine, CA

Item 3: Litigation.

There are no prior or currently pending civil or criminal suits to be disclosed.

Item 4: Bankruptcy.

No party to this disclosure has taken any action in Bankruptcy during the past 10 years.

Item 5: Initial Fees.

An initial lump sum franchise fee of \$30,000 is due when Franchisee signs their first Franchise Agreement. The Franchise Fee will be discounted to \$25,000 for the second Franchise Agreement and \$20,000 for the third and subsequent Franchise Agreements. Franchisor will refund 50% of the franchise fee Franchisee has paid for a particular franchise if Franchisor terminates this agreement because Franchisor determines Franchisee is unable to satisfactorily complete the training program. Franchisor does not give refunds under other circumstances.

Payment of all initial fees is postponed until after all of franchisor's initial obligations are complete and franchisee is open for business.

Item 6: Other Fees.

OTHER FEES

Type of Fee	Amount	Due Date
Royalty Fee ¹	6% of Gross Revenue	(weekly ACH, Collected on Every Monday based on the previous week's sales through Sunday at 11:59pm)

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Marketing Fund Contribution ²	2% of Gross Revenue based on the previous week's Revenue.	(weekly ACH, Collected on Every Monday based on the previous week's sales through Sunday at 11:59pm)
Late Fees ³	The lower of 1.5% per month or the highest rate allowed by the state where Franchisee is located.	As Necessary
Management Fee Fee ⁴	\$200/Day - Franchisor may charge this fee if Franchisor is required to manage your business for any reason.	Upon Invoice from Franchisor.
Transfer Fee ⁵	\$10,000	Upon Transfer

REMARKS

¹Royalty Fee: Franchisee must pay Franchisee's royalty fee directly to Franchisor from Gross Revenue generated through Franchisee's business.

²Marketing Fund Contribution: The Marketing Fund Contribution covers marketing contributions to help promote and grow the system wide brand.

³Late Fees: Applies to all overdue fees Franchisee owes Franchisor.

⁴Management Fees: Applies to Franchisor needing to manage the franchisee's business. This would only be incorporated if and when the Franchisor is required to come in and manage your business.

⁵Transfer fees: These fees are paid to the Franchisor upon selling the franchise business to a third party. This fee must be paid to the Franchisor in order to cover the expenses associated with training and supporting the new owner.

Item 7: Estimated Initial Investment.

ESTIMATED INITIAL INVESTMENT

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
Franchise Fee ¹	\$30,000	Cashier's Check	Signing of Franchise Agreement	Franchisor

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Training Expenses ²	\$2,000 – \$6,000	Not Specified	During Training	Airlines, Hotels, Restaurants
Real Property ³	\$4,167 – \$16,500	Not Specified	Before Beginning Operations	Landlord
Property Improvements ⁴	\$45,000 – \$145,000	Not Specified	Before Beginning Operations	Approved Contractor
Computer Equipment and Software ⁵	\$2,800 – \$6,000	Not Specified	Before Beginning Operations	Approved Supplier
Office Expenses ⁶	\$500 – \$2,500	Not Specified	Before Beginning Operations	Not Specified
Signage ⁷	\$5,500 – \$8,000	Not Specified	Before Beginning Operations	Approved Supplier
Furniture and Equipment ⁸	\$45,000 – \$95,000	Not Specified	Before Beginning Operations	Approved Supplier
Utilities ⁹	\$500 – \$4,000	Not Specified	Before Beginning Operations	Utility Provider
Uniforms ¹⁰	\$250 – \$750	Not Specified	Before Beginning Operations	Approved Supplier
Inventory ¹¹	\$7,500 – \$15,500	Not Specified	Before Beginning Operations	Approved Supplier
Market Introduction ¹²	\$2,000 – \$4,000	Not Specified	Before Beginning Operations	Approved Provider
Insurance ¹³	\$530 – \$5,300	Not Specified	Before Beginning Operations	Insurance Agent
Licenses and Permits ¹⁴	\$500 – \$4,000	Not Specified	Before Beginning Operations	Not Specified
Legal and Accounting ¹⁵	\$1,000 – \$3,100	Not Specified	Before Beginning Operations	Accountants, Lawyers
Additional Funds ¹⁶	\$20,000 – \$30,000	Not Specified	Upon Beginning Operations	Not Specified

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Total ¹⁷	\$166,997 to \$374,900	
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¹ Franchise Fee. The franchise fee and its refund policy are described in greater detail in ITEM 5.

² Training. The cost of initial training is included in the franchise fee, but you are responsible for transportation and expenses for meals and lodging while attending training. The total cost will vary depending on the number of people attending, how far you travel and the type of accommodations you choose. These expenses are typically non-refundable. Before making airline ticket, hotel, rental car or other reservations, you should inquire about the refund policy in the event you need to cancel any reservation.

³ Real Property. The average unit will range from 500 to 900 square feet and should be located in a high foot-traffic area such as a mall, an airport terminal, an outdoor shopping center, a college campus or a sports stadium. It is difficult to estimate lease acquisition costs because of the wide variation in these costs between various locations. Lease costs will vary based upon square footage and cost per square foot. Some lessors may refund the security deposit if you cancel the lease before you occupy the premises. Estimated rental costs for 3 months are included with the category “Additional Funds”.

⁴ Property Improvements. The low end of the range in the initial outlay assumes that the landlord provides a partial build out allowance. The high end of the range reflects the cash outlay by a franchisee that does not receive a build-out allowance.

⁵ Computer Equipment & Software. This is for computers, monitors, battery backups and other IT work. This also accounts for the POS system for the restaurant. The amounts you pay for a computer and software are typically non-refundable, or if refundable, may be subject to a “re-stocking” fee. You should inquire about the return and refund policy of the suppliers at or before the time of purchasing.

⁶ Office Expenses. You must purchase general office supplies including stationery, business cards and typical office equipment. Factors that may affect your cost of office equipment and supplies include local market conditions, competition among suppliers and other factors. We do not know if the amounts you pay for office equipment and supplies are refundable. Factors determining whether office equipment and supplies are refundable typically include the condition of the items at time of return, level of use and length of time of possession. You should inquire about the return and refund policy of the supplier at or before the time of purchase.

⁷ Signage. The range of costs represents the outright purchase of all signage on the franchised locations. It is subject to all local ordinances. These costs are typically not refundable.

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⁸ Furniture & Equipment. Although some of these items may be leased, the range shown represents the actual purchase price. Equipment installation charges are included in the range of expenses for furniture, fixtures, and equipment.

⁹ Utilities. A utility deposit will typically be required only if the franchisee is a new customer of the utility company.

¹⁰ Uniforms. To promote a uniform system image, you will require all of your Hot Fries store personnel to dress during business hours in the attire specified in the Manuals. You will purchase such attire only from approved suppliers. The approved suppliers are disclosed in the confidential operations manual.

¹¹ Inventory. Although it is possible that initial inventory may be purchased on open account, the range shown represents the full cost of purchase.

¹² Market Introduction. The Initial Marketing Program will be managed and operated by you at our direction. You will pay the entire amount to a third party vendor and we will provide direction to the marketing program. The size of the marketing program will depend on your territory and how much advertising you choose to do. There are no refunds on the Marketing Program.

¹³ Insurance. You must purchase the following types and amounts of insurance: (1) workers' compensation insurance and employer liability coverage with a minimum limit of \$1,000,000 or higher if your state law requires; (2) comprehensive general liability insurance with a minimum liability coverage of \$2,000,000 per occurrence, or higher if your state law requires; (3) automobile liability insurance of at least \$1,000,000 or higher if your state law requires; (4) insurance coverage for contractual indemnity. A 20 percent down payment of the annual premium for general liability insurance and workers' compensation insurance costs is included in the low-end estimate, and the full annual premium is included in the high estimate. Factors that may affect your cost of insurance include the size and location of the franchised business, equipment, inventory, number of employees and other factors. The amounts you pay for insurance are typically non-refundable. You should inquire about the cancellation and refund policy of the insurance carrier or agent at or before the time of purchase.

¹⁴ Licenses & Permits. State and local government agencies typically charge fees for occupancy permits, operating licenses and permits to make improvements to your office and storage area. These fees are typically non-refundable. You should inquire about the cancellation and refund policy of the agencies at or before the time of payment. We do not know if the amounts you spend are refundable.

¹⁵ Legal & Accounting. You will need to employ an attorney, an accountant and other consultants to assist you in establishing your franchised business. These fees may vary from location to location depending on the prevailing rates of local attorneys, accountants and consultants and your existing relationships. These fees are typically non-

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refundable. You should inquire about the refund policy of the attorney, accountant or consultant at or before the time of hiring.

¹⁶ Additional Funds. We recommend that you have a minimum amount of money available to cover operating expenses for the first 3 months that the franchised business is open. The lower end represents estimated expenses to maintain minimal operations without any sales for three months. The high end is a more conservative working capital estimate. We cannot guarantee that our recommendation will be sufficient. Additional working capital may be required if sales are low or operating costs are high. These expenses are typically non-refundable.

¹⁷ Total. In compiling this chart, we relied on our and our affiliates' industry knowledge and experience in the business of the type being franchised. The amounts shown are estimates only and may vary for many reasons, including the condition of your facility, the capabilities of your management team, where you locate your franchised business and your business experience and acumen. You should review these estimates carefully with an accountant or other business advisor before making any decision to buy a franchise. These figures are estimates only and we cannot guarantee that you will not have additional expenses in starting the franchised business.

Item 8: Restrictions on Sources of Products and Services.

Authorized Products, Services and Suppliers

(1) Franchisees will sell all types of fries, Chicken wings, nuggets, tenders, "build your own" baked potato & mashed potatoes, hot dogs, fish strips, bottled water/ beverages, milkshakes/ frozen desserts, lemonades: fresh/ frozen, fountain beverages and other incidental hot and cold beverages. They will also offer specialty fries, which are fry meals with an array of toppings from steak, chicken and bacon. They will also offer baked potatoes and have a variety of drinks. Additionally, Hot Fries will add other seasonal items.

(2) The Franchisor and its Affiliate are Approved Suppliers.

(3) The Franchisor does not own an interest in any Approved Suppliers.

(4) The Franchisor grants and revokes approval of Approved Suppliers.

(i) Franchisor may provide criteria for Approved Suppliers in the Operations Manual or in another writing.

(ii) Suppliers found by Franchisee must be submitted to Franchisor for Approval.

(iii) Franchisee shall bear the cost of all expenses incurred by Franchisor in determining whether it shall approve a supplier.

(iv) Franchisee shall be notified within a reasonable time (usually 30 days) whether Franchisee may purchase from the submitted supplier

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(v) Franchisor may revoke its approval of an Approved Supplier at any time by notifying Franchisee and/or the supplier.

(5) Franchisor issues specifications for Approved Suppliers in the Operations Manual and may, from time to time, modify the specifications in subsequent versions of the Operations Manual.

(6) Franchisor may derive revenue or other material consideration from any Approved Suppliers.

(7) The proportion of these required purchases is reflected in the Inventory line of the chart in Item 7.

(8) Approved Suppliers may make payments to Franchisor from franchise purchases.

(9) There are no purchasing or distribution cooperatives.

(10) Franchisor will negotiate purchase agreements with suppliers on behalf of Franchisee.

(11) Franchisor does not provide material benefits to Franchises based on the purchase of particular products or services or use of particular suppliers.

Computer Equipment

(1) Point of Sale system with internet capability is required and must be acquired thru our approved vendor; all hardware and software.

(2) Neither Franchisor nor its Affiliate is Approved Suppliers

(3) The register will take customer orders and store sales history along with keeping staff clock in and clock out data. Our system is a touch screen computer with 1 cash drawer and 2 printers. The system also comes with our custom menu pre- programmed. High volume locations will be required to purchase two POS systems.

(4) At this time we only have one approved supplier for the POS system.

(5) Franchisor issues specifications for these items in the Franchise Agreement and may from time to time modify the specifications in subsequent versions of the Operations Manual.

(6) Franchisor may derive revenue or other material consideration from any Approved Suppliers.

(7) The proportion of these required purchases is reflected in the Computer Equipment and Software line of the chart in Item 7.

(8) N/A

(9) There are no purchasing or distribution cooperatives.

(10) Franchisor may negotiate purchase agreements with suppliers on behalf of Franchisee.

(11) Franchisor does not provide material benefits to Franchises based on the purchase of particular products or services or use of particular suppliers.

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Item 9: Franchisee's Obligations

This table lists Franchisee's principal obligations under the franchise and other agreements. It will help Franchisee find more detailed information about Franchisee's obligations in these agreements and in other ITEMS of this Disclosure Document.

Obligation		Section in Agreement	Disclosure Document Item
a.	Pre-opening purchases/leases	5, 12, and 15	7 and 8
b.	Initial and ongoing training	8.	6, 7 and 11
c.	Opening	5 and 8	11
d.	Fees	3, 5, 8,10,11,13,15,18 and 22.	5, 6 and 7
e.	Compliance with standards and policies/Operating Manual	6, 7, 9, 10 and 13.	8, 14 and 16
f.	Trademarks and proprietary information	6,7 and 9.	13 and 14
g.	Restrictions on products/services offered	5, 6 and 13.	8 and 16
h.	Warranty and customer service requirements	13.	16
i.	Territorial development and sales quotas	Not Applicable	12
j.	Ongoing product/service purchases	13.	8 and 11
k.	Maintenance, appearance and remodeling requirements	5, 10 and 13	6
l.	Insurance	15.	6, 7 and 8
m.	Advertising	11.	6,7 and 11
n.	Indemnification	21	Not Applicable
o.	Owner's participation/ management/ staffing	13	15
p.	Records and reports	12.	11
q.	Inspections and audits	6 and 12	6, 11 and 13
r.	Transfer	18 and Exhibits 1 and 5.	6 and 17
s.	Renewal	4	17
t.	Post-termination obligations	17	17

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Obligation		Section in Agreement	Disclosure Document Item
u.	Non-competition covenants	7 and 17	17
v.	Dispute resolution	23	17
x.	Other	Not Applicable	Not Applicable

Item 10: Financing

Franchisor does not offer direct or indirect financing arrangements.

Item 11: Franchisor's Assistance, Advertising, Computer Systems and Training.

(1) Pre-opening Obligations of Franchisor

(i) Franchisee is responsible for locating a site and negotiating the purchase or lease of the site for their Franchised Business.

(ii) Franchisee is responsible for conforming the site to local ordinances and building codes and obtaining any required permits.

(iii) Franchisee is responsible for constructing, remodeling, or decorating the site.

(iv) Franchisor will provide an initial training program for Franchisee's Designated Manager. This training is described in detail later in this Item. (Section 8.1)

(v) Franchisee is responsible for all necessary equipment, signs, fixtures, opening inventory and supplies.

(2) Franchisor estimates that the typical length of time between the signing of the Franchise Agreement and the opening of the franchise is 3-8 months. Factors that may affect Franchisee's beginning operations include ability to secure permits, seasonality for what time of year Franchisee start Franchisee's new business, zoning and local ordinances, weather conditions and delays in installation of equipment and fixtures. Because the Franchised Business may not be operated from a home office, this will allow for the necessary time from executing the franchise agreement to opening the business.

(3) During-operation Obligations of Franchisor

(i) Franchisor will authorize the products and services for sale or use in Franchisee's Franchised Business. (Section 13.1)

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(ii) Franchisor will make available to Franchisee ongoing training as Franchisor think necessary and when we do we may require Franchisee to attend. (Section 8.5)

(iii) Franchisor will provide Franchisee with modifications to the Operations Manual as they are made available to franchisees. (Section 9.2)
Franchisor has the right to change or modify the System and will notify Franchisee of any changes. (Section 10.2)

(iv) Franchisor will offer Franchisee advice and guidance on prices for products and services. (Section 14.1)

(v) Franchisor will prescribe a standard accounting system in the Operations Manual. (Section 12.1)

(vi) Franchisor will be available to render advice, discuss problems and offer general guidance to Franchisee by telephone, e-mail, facsimile, newsletters and other methods with respect to general operating problems. (Section 14.1)
Franchisor will also make periodic visits to the franchised business to provide Franchisee with consultation, assistance and guidance in various aspects of the operation and management of the franchised business. (Section 14.2)

(4) Advertising Program

(i) Franchisor is not obligated to conduct advertising but does provide an Internet website to provide information about the System. (Section 11.5)

(ii) Franchisee shall submit to Franchisor for its prior approval all advertising and promotional materials to be used by Franchisee. (Section 11.2.2)

(iii) There is not an advertising council.

(iv) Although Franchisor is not obligated to do so, we may create a cooperative advertising program for the benefit of all Franchised Businesses located in a particular region. Franchisor has the right to collect and designate all or a portion of Franchisee's local advertising for cooperative advertising. Franchisor will determine the geographic territory and market areas for each cooperative advertising program. Franchisee must participate in any cooperative advertising program established in Franchisee's region. (Section 11.4)

(v) Franchisee must participate in a System-wide Marketing Fund. (Section 11.3)

(A) All Franchised Businesses and Franchisor owned outlets shall contribute to the Marketing Fund.

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(B) All Franchised Businesses will contribute 2% of their Gross Sales Weekly to the Marketing Fund based on the previous month's Gross Revenues.

(C) All Franchisor owned outlets will contribute to the fund on the same basis as franchisees.

(D) Franchisor will administer the fund. (Section 11.3)

(E) Franchisor will have an accounting of the marketing fund prepared each year and Franchisor will provide Franchisee with a copy upon request. Franchisor may require that the annual accounting be reviewed or audited and reported on by an independent certified public accountant at the marketing fund's expense. (Section 11.3.6)

(F) All accountings will be available to Franchisee upon request. (Section 11.3.6)

(G) As Franchisor is in its inaugural year, it does not have information on the percentage of the fund spent on production, media placement, administrative expenses, or any other use.

(vi) If excess amounts remain in any fund at the end of such fiscal year, all expenditures in the following fiscal year(s) shall be made first out of such excess amounts, including any interest or other earnings of the fund, and next out of prior year contributions and then out of current contributions.

(vii) Franchisor does not use any advertising funds principally to solicit new franchise sales.

(5) Franchisee is required to purchase point of sale system consisting of hardware and software in accordance with Franchisor's specifications in the Operations Manual. (Section 12.5)

Hardware	Software
POS Hardware	POS System Software
Receipt Printers	Monthly Tech Support Fee
Cash Drawers	
Customer Display Screen	

(i) The approximate cost of the hardware and software is \$2,800 to \$6,000.

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(ii) Franchisor is not obligated to provide ongoing maintenance, repairs, upgrades or updates to Franchisee's Computer System. Franchisee must enter into ongoing maintenance and support agreements for the maintenance of the POS computer system. Franchisee must also have internet access connected to the POS at all times for the system to work properly.

(iii) Franchisee may periodically be required to update or upgrade computer hardware and software, if Franchisor believes it is necessary. Franchisor may introduce new requirements for computer and point-of-sale systems or modify our specifications and requirements. There are no limits on our rights to do so, except as disclosed in ITEM 16.

(iv) If Franchisee would like to purchase optional maintenance for Franchisee's personal computer, Franchisee should investigate the cost.

(v) Franchisor has the right to independently access all information Franchisee collects or compile at any time without first notifying Franchisee. (Section 12.6)

(6) Franchisor will provide to Franchisee, on loan, one copy of the Hot Fries Operations Manual or provide Franchisee with access to an electronic copy of the Operations Manual. The Table of Contents of the Operations Manual, along with number of pages devoted to each section, is included as Exhibit D to this Disclosure Document. (Section 9.1)

(7) Franchisor's Training Program

TRAINING PROGRAM

Subject	Hours of Classroom Training (Company owned Location)	Hours of On-The-Job Training (Franchisee's Location)	Location
Manager Orientation, Principles, Standards and Practices Project Based Shift Management	5	11	Buena Park, California or Franchisee's Location
Prep and Line Cooking	2	30	Buena Park, California or Franchisee's Location
Front of House Service and Cashier	2	30	Buena Park, California or Franchisee's Location
Manager of the Day	1	7	Buena Park, California or Franchisee's Location

FRANCHISE DISCLOSURE DOCUMENT

	10	78	Total Hours
--	----	----	-------------

(A) The initial training program will be conducted approximately 2 months before the opening of the Franchised Business and will be held at our location. (Section 8.1)

(B) The training materials include the Operations Manual and related written materials. Nishant Patel's experience is listed in Item 2.

(C) Franchisor does not charge for initial training; however, Franchisee must pay for all travel costs and living expenses of any attendees. (Section 8.1)

(D) Franchisee's designated manager must satisfactorily complete the initial training program before Franchisor will approve an opening date for the franchised business. Up to 2 assistants of Franchisee's choosing may also attend (for a total of 3 people). (Section 8.1)

(E) Periodically, Franchisee, Franchisee's managers or employees must attend refresher-training programs to be conducted at our headquarters or another location Franchisor designates. Attendance at these programs will be at Franchisee's expense. (Section 8.5)

Item 12: Territory

(1) If Franchisor has not already approved a location for the Franchised Business, Franchisee shall select and submit possible sites within the Designated Area for Franchisor's approval. (Section 2.3)

(2) Franchisee will receive a territory based on a population of 50,000 to 100,000. (Section 2.4)

(3) Franchisor shall allow the reasonable relocation of the Franchised Business Location. Franchisee will not be permitted to open additional franchise outlets. (Sections 2.5 and 2.6)

(4) Franchisee does not have any right to acquire additional franchises granted under this Agreement.

(5) Franchisor grants an exclusive territory to Franchisee that is neither contingent on performance nor modifiable by Franchisor. (Section 2.4)

(6) Restrictions and Competition

(i) Franchisor does not operate a business of the type being franchised and will thus not compete with Franchisee. Franchisor's Affiliate does not have the right to solicit or accept orders from Franchisee's exclusive territory. (Section 2.9)

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(ii) Franchisee shall not directly market to or solicit customers located outside of the Territory. (Section 2.10)

(iii) Franchisor neither operates nor plans to operate a business under a different trademark that will compete with Franchisee within the Territory.

Item 13: Trademarks

(1) Franchisor licenses its principal trademark (depicted on the cover page of this document) to Franchisee for use associated with the Franchised Business. Franchisor will also license any other current or future Mark used to operate the franchised business. By “Mark,” Franchisor means any trade name, trademark, service mark or logo used to identify Franchisee’s business. Franchisee may not use any Marks that Franchisor has not designated to identify Franchisee’s business.

(2) Franchisor has received a federal registration on the Principle Register for its principle trademark on 11/06/2012 with the registration #4239448. Franchisor has filed all required affidavits.

(3) We began using our trademark in commerce on 04/17/2012.

(4) We have a federal registration for our principle trademark. Therefore, our trademark has nationwide legal protection as of the registration date.

(5) Franchisor knows of no currently effective material determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, or any state trademark administrator or court; or any pending infringement, opposition, or cancellation proceedings.

(6) Franchisor knows of no pending material federal or state court litigation regarding the Franchisor’s use or ownership rights in any of the Marks.

(7) Franchisor knows of no currently effective agreements that significantly limit the franchisor’s rights to use or license the use any of the Marks.

(8) Trademark Liabilities

(i) Franchisor is not required to protect Franchisee’s right to use the principle trademarks or to protect the Franchisee against claims of infringement or unfair competition arising out of their use of the Marks.

(ii) Franchisee must immediately notify Franchisor when Franchisee learns about an infringement of, or challenge to Franchisee’s use of, any Mark, or any claim by any person of any rights in any Marks, and Franchisee must not communicate with any person other than Franchisor and our counsel regarding any infringements, challenges or claims unless Franchisee are legally required to do so, however, Franchisee may communicate with Franchisee’s own counsel at Franchisee’s own expense.

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(iii) Franchisor is not required to take affirmative action when notified of these uses or claims but will take the action we think appropriate.

(iv) Franchisor has the option to control the defense and settlement of any proceeding related to Franchisee's use of the Marks.

(v) Franchisor will reimburse Franchisee for all of Franchisee's expenses reasonably incurred in any legal proceeding disputing Franchisee's authorized use of any Mark, but only if Franchisee notifies Franchisor of the proceeding in a timely manner and Franchisee have complied with our directions with regard to the proceeding.

(vi) If Franchisor requires the Franchisee to modify or discontinue using a trademark, Franchisee will be solely responsible for all expenses up to the cap for system modifications stated in the Franchise Agreement.

(9) Franchisor knows of no infringing or prior superior uses that could materially affect the use of the Marks in the State of California or any other state in which the franchised business is to be located.

Item 14: Patents, Copyrights and Proprietary Information (Trade Secrets).

(1) Franchisor owns the rights in, or licenses to the following patents, patent applications and/or copyrights that are material to the franchise.

(i) Patents: None

(ii) Patent Applications: None

(iii) Copyrights: Franchisor owns a copyright in the Operations Manual, its website, its marketing materials and other copyrightable items that are part of the System. Franchisor has not registered its copyrights with the United States Copyright Office.

(2) There are no current material determinations of the United States Patent and Trademark Office, the United States Copyright Office, or a court regarding any patent or copyright listed in this document.

(3) There are no material proceedings pending in either the United States Patent and Trademark Office or any court.

(4) The right to use the copyrighted items is not materially limited by any agreement.

(5) Franchisor is not obligated to protect the copyright or to defend Franchisee against claims arising from Franchisee's use of the copyrighted items.

FRANCHISE DISCLOSURE DOCUMENT

(6) Franchisor knows of no patent or copyright infringement that could materially affect the franchise.

(7) Franchisor have developed certain trade secrets and other confidential information, including methods of business management, sales and promotion techniques, and know-how, knowledge of, and experience in, operating a Hot Fries Franchised Business.

Item 15: Obligation to Participate in the Actual Operation of the Franchised Business.

(1) Franchisee is obligated to directly supervise the Franchised Business.

(2) Franchisee must appoint a Designated Manager to provide personal on-premises supervision of the Franchised Business.

(i) If Franchisee is an individual, Franchisor may require that Franchisee serve as the Designated Manager.

(ii) There are no limits on whom the Franchisee can appoint as a Designated Manager except the Franchisor's right to insist that Franchisee fill the role.

(iii) The Designated Manager must successfully complete the Franchisor's training program.

(iv) If Franchisee is a business entity, Franchisor may require that the Designated Manager own at least 15% of the equity in Franchisee.

(3) Franchisee's appointed Designated Manager will be required to sign nondisclosure and noncompetition agreements in a form the same as or similar to the Nondisclosure and Non-competition agreement attached to the Franchise Agreement. Franchisor will be a third party beneficiary with the right to enforce those Agreements.

Item 16: Restrictions on What the Franchisee May Sell.

(1) Franchisee is only permitted to offer the services and products authorized by Franchisor and Franchisee must discontinue offering any services or products that Franchisor may disapprove.

(2) Franchisee is required to sell all of the products or services authorized by Franchisor.

(3) Franchisor may periodically change required or authorized services or products. There are no limits on our right to do so, except that Franchisee's investment required to change required or authorized services will not exceed \$25,000 during the initial term of the franchise.

FRANCHISE DISCLOSURE DOCUMENT

Item 17: Renewal, Termination, Transfer and Dispute Resolution.

THE FRANCHISE RELATIONSHIP

This table lists certain important provisions of the franchise and related agreements. Franchisee should read these provisions in the agreement attached to this Disclosure Document. Franchisee should refer to Franchisee's state's-specific addendum attached to this Disclosure Document for exceptions to this ITEM 17.

Provision	Section in Franchise or Other Agreement	Summary
a. Length of franchise term	4.1	The initial term is 10 years.
b. Renewal or extension of the term	4.2	Franchisee may renew for successive renewal terms of 5 years each. Renewal means the continuation of Franchisee's Franchised Business under the current Franchise Agreement and Operations Manual that may contain materially different terms and conditions than Franchisee's original contract.
c. Requirements for franchisee to renew or extend	4.2	Franchisee may renew the then-current Franchise Agreement if Franchisee: has fully complied with the provisions of the Franchise Agreement; has the right to maintain possession of the approved location or an approved substitute location for the term of the renewal; has made capital expenditures as necessary to maintain uniformity with the System; has satisfied all monetary obligations owed to us; is not in default of any provision of the Franchise Agreement or any other agreement with us; has given timely written notice of Franchisee's intent to renew; signs a current Franchise Agreement, which may have different terms and conditions than Franchisee's original Franchise Agreement; complies with current training requirements; and signs a general release in a form the same as or similar to the General Release attached to the Franchise Agreement.
d. Termination by franchisee	16.1	Franchisee may terminate the Franchise Agreement if Franchisee is in compliance with it, Franchisor materially breaches it, and Franchisor fails to begin

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		to cure our breach within 30 days of receiving Franchisee's written notice.
e. Termination by franchisor without cause	None	
f. Termination by franchisor with cause	16.2	See g and h below.
g. "Cause" defined- curable defaults	16.2.2	If a default arises from Franchisee's failure to comply with a mandatory specification in the Franchise Agreement or Operations Manual, Franchisee can avoid termination of the Franchise Agreement if Franchisee cures the following defaults: Franchisee's failure to maintain insurance; Franchisee's failure to make payments due to us; Franchisee's failure to comply with any mandatory Specification, standard or operating procedure prescribed in the Operations Manual or otherwise prescribed in writing; or any other default not explicitly stated in the Franchise Agreement.
h. "Cause" defined- non- curable defaults	16.2.1	Franchisor has the right to terminate the Franchise Agreement without giving Franchisee an opportunity to cure if Franchisee: fails to timely select an approved site for or establish, equip and begin operations of the franchised business; fails to have its Designated Manager satisfactorily complete training; makes a material misrepresentation or omission in the application for the franchise; after notice to cure, fails to refrain from activities, behavior or conduct likely to adversely affect the reputation of either party or the franchised business; is convicted of or pleads no contest to a felony or other crime or offense likely to affect the reputation of either party or the franchised business; uses the Operations Manual, Training Manuals, trade secrets or other confidential information in an unauthorized manner; if required, fails to have its owners (and members of their immediate families and households), officers, directors, managers, executives and professional staff, and other individuals having access to trade secrets or other confidential information sign nondisclosure and non-competition agreements or, if requested, fails to

FRANCHISE DISCLOSURE DOCUMENT

		provide Franchisor with copies of all signed nondisclosure and non-competition agreements; abandons the Franchised Business for 5 or more consecutive days; surrenders or transfers control of the Franchised Business in an unauthorized manner; fails to maintain the Franchised Business under the supervision of a Designated Manager following ITS death or disability; submits reports on 2 or more separate occasions understating any amounts due by more than 3%; is adjudicated bankrupt, insolvent or make a general assignment for the benefit of creditors; misuses or makes unauthorized use of the Marks; fails on 2 or more occasions within any 12 months to submit reports or records or to pay any fees due Franchisor or any Affiliate; violates on 2 or more occasions any health, safety or other laws or operates the Franchised Business in a manner creating a health or safety hazard to customers, employees or the public; takes any action reserved to us; fails to comply with applicable law after notice; breaches the franchise agreement or fails to comply with specifications on 2 or more occasions within any 12 months; or defaults under any other agreement with Franchisor (or an Affiliate) so that they have the right to terminate such agreement.
i. Franchisee's obligations on termination/non-renewal	17.1	If the Franchise Agreement is terminated or not renewed, Franchisee must: stop operating the franchised business; stop using any trade secrets, confidential information, the System and the Marks; if requested, assign Franchisee's interest in the franchise location to Franchisor; cancel or assign to Franchisor any assumed names; pay all sums owed to Franchisor including damages and costs incurred in enforcing the Franchise Agreement; return the Operations Manual, trade secrets and all other confidential information; assign Franchisee's telephone and facsimile numbers to Franchisor; comply with the covenants not to compete and any other surviving provisions of the Franchise Agreement.
j. Assignment of contract by franchisor	18.1	There are no restrictions on Franchisor's right to assign its interest in the Franchise Agreement.

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k. "Transfer" by franchisee-definition	18.2	"Transfer" means to sell, assign, convey, give away, pledge, mortgage, sublicense or otherwise transfer, whether by operation of law or otherwise, any interest in this Agreement, the franchise granted hereby, the Approved Location used in operating the Franchised Business, its assets, or any part or all of the ownership interest in Franchisee.
l. Franchisor's approval of transfer by franchisee	18.2	Franchisee may not transfer its interest without the prior written consent of Franchisor.
m. Conditions for franchisor approval of transfer	18.2	Franchisor will consent to a transfer if: Franchisor has not exercised its right of first refusal; all obligations owed to Franchisor are paid; Franchisee and the transferee have signed a general release in a form the same as or similar to the General Release attached to the Franchise Agreement; the prospective transferee meets the business and financial standards of Franchisor; the transferee and all persons owning any interest in the transferee sign the then current Franchise Agreement; Franchisee provides a copy of all contracts and agreements related to the transfer; Franchisee or the transferee pay a transfer fee of \$10,000; the transferee or the owners of transferee have agreed to be personally bound by all provisions of the Franchise Agreement; Franchisee has agreed to guarantee performance by the transferee, if requested by us; the transferee has obtained all necessary consents and approvals of third parties; Franchisee or all of its equity owners have signed a non-competition agreement in a form the same as or similar to the Nondisclosure and Non-Competition attached to the Franchise Agreement; the transferee has agreed that its Designated Manager will complete the initial training program before assuming management of the franchised business; and the transferee has obtained all necessary types of insurance.
n. Franchisor's right of first refusal to acquire	19	Franchisor may match an offer for the Franchised Business or an ownership interest Franchisee proposes to sell.

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franchisee's business		
o. Franchisor's option to purchase franchisee's franchised business	17.4	Except as described in (n) above, Franchisor does not have the right to purchase the Franchised Business; however, during the 30-day period after the termination or expiration of the Franchise Agreement, Franchisor has the right to purchase any assets of the Franchised Business for fair market value.
p. Death or disability of franchisee	18.6	Following the death or incapacity of an owner of the Franchised Business or the death or incapacity of any holder of a legal or beneficial interest in the Franchised Business, Franchisee or his or her representative must transfer, subject to the terms of the Franchise Agreement, the individual's interest in the franchised business within 180 days of death or incapacity or Franchisor may terminate the Franchise Agreement.
q. Non-competition covenants during the term of the franchise	7.3	Franchisee, its owners (and members of their families and households) and its officers, directors, executives, managers, professional staff and employees are prohibited from: attempting to divert any business or customer of the franchised business to a competitive business or causing injury or prejudice to the Marks or the System; owning or working for a competitive business.
r. Non-competition covenants after the franchise is terminated or expires	17.2	For 2 years after the termination or expiration of the Franchise Agreement, Franchisee, its owners (and members of their families and households) and Franchisee's officers, directors, executives, managers or professional staff are prohibited from: owning or working for a competitive business operating within 25 miles of the franchise location or within the area of primary responsibility (whichever is greater), or within 25 miles of any other Franchised Business; or soliciting or influencing any of our customers, employees or business associates to compete with Franchisor or terminate their relationship with us.
s. Modification of the agreement	9.2, 22.7 and 22.8	The Franchise Agreement can be modified only by written agreement between Franchisee and us. Franchisor may modify the Operations Manual

FRANCHISE DISCLOSURE DOCUMENT

		without Franchisee's consent if the modification does not materially alter Franchisee's fundamental rights.
t. Integration/merger clause	22.7	Only the terms of the Franchise Agreement are binding. Nothing in this or in any related agreement, however, is intended to disclaim the representations Franchisor made in this franchise disclosure document.
u. Dispute resolution by arbitration or mediation	23.6	Except for claims relating to the Marks, confidential information, trade secrets and covenants not to compete, and subject to state law, all disputes must be arbitrated in Buena Park, California.
v. Choice of forum	23.2	Subject to state law, any litigation must be pursued in courts located in Buena Park, California.
w. Choice of law	23.1	Subject to state law, California Law applies; except that disputes over the Marks will be governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sec. 1051 et seq.) and disputes over copyrights will be governed by federal copyright laws of the United States.

Item 18: Public Figures.

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

Item 19: Financial Performance Representation.

(1) 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 Franchisee is 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.

(2) Franchisor does not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. Franchisor also does not authorize our employees or representatives to make any such representations either orally or in writing. If Franchisee is purchasing an existing outlet, however, Franchisor may provide Franchisee with actual records of that outlet. If

FRANCHISE DISCLOSURE DOCUMENT

Franchisee receives any other financial performance information or projections of Franchisee's future income, Franchisee should report it to the franchisor's management by contacting Nishant Patel, 5825 Lincoln Ave. Ste. D, #260, Buena Park, CA 90620, 949-954-0411, the Federal Trade Commission, and the appropriate state regulatory agencies.

Item 20: Outlets and Franchise Information.

(1) Franchised and Company Owned Outlets for the past 3 fiscal years.

Table No. 1
System wide Outlet Summary For Years 20165 to 20187

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2016	0	0	0
	2017	0	1	+1
	<u>2018</u>	<u>1</u>	<u>1</u>	<u>+1</u>
Company-Owned	2016	1	1	0
	2017	1	0	-1
	<u>2018</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Outlets	2016	1	1	0
	2017	1	1	0
	<u>2018</u>	<u>1</u>	<u>2</u>	<u>+1</u>

(2) Status and Transfers of Franchised and Company Owned Outlets for the past three fiscal years.

(i) Transfers

Table No. 2
**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For Years 20165 to 20187**

State	Year	Number of Transfers
California	2016	0
	2017	0
	<u>2018</u>	<u>0</u>
Total	2015	0
	2016	0
	<u>2018</u>	<u>0</u>

(ii) Status of Franchisee-Owned Outlets by state

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Table No. 3
Status of Franchised Outlets For Years 20165 to 20187

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
CA	2016	0	0	0	0	0	0	0
	2017	0	1	0	0	0	0	1
	2018	1	1	0	0	0	0	2
Total	2016	0	0	0	0	0	0	0
	2017	0	1	0	0	0	0	1
	2018	1	1	0	0	0	0	2

(iii) Status of Affiliate-Owned Outlets

Table No. 4
Status of Company-Owned Outlets For Years 20165 to 20187

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
CA	2016	1	0	0	0	0	1
	2017	1	0	0	1	0	0
	2018	0	0	0	0	0	0
Total	2016	1	0	0	0	0	1
	2017	1	0	0	1	0	0
	2018	0	0	0	0	0	0

(3) Projected New Outlets

Table No. 5
Projected Openings as of December 31, 20187

State	Franchise Agreements Signed But Outlet Not Yet Opened	Projected New Franchised Outlet In The Next Fiscal Year	Projected New Company-Owned Outlet in the Next Fiscal Year

FRANCHISE DISCLOSURE DOCUMENT

CA	0	1	0
Total	0	1	0

(4) The contact information for our Franchisees is listed in Exhibit F.

(5) No Franchisees have had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement.

(6) Franchisor is not selling any previously owned franchised outlets now under its control.

(7) In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with the Hot Fries franchise system. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

(8) There are no trademark-specific franchisee organizations associated with the franchise system being offered.

Item 21: Financial Statements.

The Audited Financial Statements from 12/31/2018~~6~~ are attached in Exhibit E to this document.

The Franchisor's fiscal year end is 12/31.

Item 22: Contracts.

All proposed agreements regarding the franchise offering are attached: Franchise Agreement (Exhibit C); General Release (Exhibit 1 to the Franchise Agreement); Nondisclosure and Non-Competition Agreement (Exhibit 2 to the Franchise Agreement); Unlimited Guaranty and Assumption of Obligations (Exhibit 3 to the Franchise Agreement).

Item 23: Receipts.

Both Franchisor and Franchisee copies of the Disclosure Document Receipts are located on the last 2 pages of this Document.

EXHIBIT A TO THE DISCLOSURE DOCUMENT

LIST OF STATE ADMINISTRATORS

The following is a list of state administrators responsible for registration and review of franchises for these states. We may register in one or more of these states.

California

Department of Business Oversight
One Sansome Street
San Francisco, California 94104-4428

Connecticut

Connecticut Banking Commissioner
Department of Banking
Securities & Business Investments
Division
260 Constitution Plaza
Hartford, Connecticut 06103

Florida

Division of Consumer Services
Attn: Business Opportunities
2005 Apalachee Parkway
Tallahassee, Florida 32399-6500

Hawaii

Commissioner of Securities
Department of Commerce & Consumer
Affairs
335 Merchant Street, Room 203
Honolulu, Hawaii 96813
(808) 586-2722

Illinois

Illinois Attorney General
500 South Second Street
Springfield, Illinois 62706
(217) 782-4465

Indiana

Indiana Secretary of State
Securities Division
302 West Washington Street, Room E-
111
Indianapolis, Indiana 46204

Kentucky

Office of the Attorney General
Consumer Protection Division
Attn: Business Opportunity
1024 Capital Center Drive
Frankfort, KY 40601-8204

Maine

Department of Professional and
Financial Regulations
Bureau of Banking
Securities Division
121 Statehouse Station
Augusta, Maine 04333

Maryland

Office of the Attorney General
Securities Division
200 St. Paul Place
Baltimore, Maryland 21202

Michigan

Michigan Attorney General's Office
Consumer Protection Division
Attn: Franchise Section
525 W. Ottawa Street
G. Mennen Williams Building, 1st Floor
Lansing, Michigan 48933

Minnesota

Minnesota Department of Commerce
Commissioner of Commerce
85 7th Place East, Suite 600
St. Paul, Minnesota 55101

Nebraska

Nebraska Department of Banking and
Finance
Commerce Court
1230 O Street, Suite 400
Lincoln, Nebraska 68509

EXHIBIT A TO THE DISCLOSURE DOCUMENT

New York

Bureau of Investor Protection and
Securities
New York State Department of Law
120 Broadway, 23rd Floor
New York, New York 10271

North Carolina

Secretary of State
Securities Division
300 North Salisbury Street, Suite 100
Raleigh, NC 27603-5909

North Dakota

North Dakota Securities Department
600 East Boulevard Avenue
State Capitol – 5th Floor
Department 414
Bismarck, North Dakota 58505-0510
(701) 328-4712

Rhode Island

Department of Business Regulation
JOHN O. PASTORE COMPLEX
1511 Pontiac Avenue
Bldg. 69, First Floor
Cranston, RI 02920

South Carolina

Office of the Secretary of State
1205 Pendleton Street
Edgar Brown Building, Suite 525
Columbia, South Carolina 29201

South Dakota

Department of Revenue and Regulation
Division of Securities
445 East Capitol Avenue
Pierre, South Dakota 57501

Texas

Office of the Secretary of State
Statutory Document Section
1019 Brazos Street
Austin, Texas 78701

Utah

Utah Department of Commerce
Division of Consumer Protection
160 East Three Hundred South
P.O. Box 146704
Salt Lake City, Utah 84114-6704

Virginia

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

Washington

Department of Financial Institutions
Securities Division
150 Israel Road Southwest
Olympia, Washington 98501

Wisconsin

Division of Securities
Department of Financial Institutions
345 West Washington Avenue
Madison, Wisconsin 53703

EXHIBIT B TO THE DISCLOSURE DOCUMENT

LIST OF STATE AGENTS FOR SERVICE OF PROCESS

The following state agencies are designated as our agent for service of process in accordance with the applicable state laws. We may register in one or more of these states.

California

Department of Business Oversight
One Sansome Street
San Francisco, CA 94104-4428

Connecticut

Connecticut Banking Commissioner
Department of Banking
Securities & Business Investments
Division
260 Constitution Plaza
Hartford, Connecticut 06103

Hawaii

Commissioner of Securities
Department of Commerce and Consumer
Affairs
335 Merchant Street, Room 203
Honolulu, Hawaii 96813

Illinois

Illinois Attorney General
500 South Second Street
Springfield, Illinois 62706

Indiana

Indiana Secretary of State
Securities Division
302 West Washington Street, Room E-
111
Indianapolis, Indiana 46204

Maryland

Maryland Securities Commissioner
Office of Attorney General
Securities Division
200 St. Paul Place
Baltimore, Maryland 21202

Michigan

Michigan Department of Commerce
Corporations and Securities Bureau
P.O. Box 30054
6546 Mercantile Way
Lansing, Michigan 48909

Minnesota

Minnesota Department of Commerce
Commissioner of Commerce
85 7th Place East, Suite 600
St. Paul, Minnesota 55101

New York

Secretary of the State of New York
41 State Street
Albany, New York 12231

North Dakota

North Dakota Securities Department
State Capitol – 5th Floor
600 East Boulevard
Bismarck, North Dakota 58505-0510

Rhode Island

Director, Department of Business
Regulation
JOHN O. PASTORE COMPLEX
1511 Pontiac Avenue
Bldg. 69, First Floor
Cranston, RI 02920

South Dakota

Department of Revenue and Regulation
Division of Securities
445 East Capitol Avenue
Pierre, South Dakota 57501

EXHIBIT B TO THE DISCLOSURE DOCUMENT

Virginia

Clerk, State Corporation Commission
Tyler Building, 1st Floor
1300 East Main Street
Richmond, Virginia 23219

Washington

Director, Department of Financial
Institutions
Securities Division
150 Israel Road Southwest
Olympia, Washington 98501

Wisconsin

Commissioner of Securities
345 West Washington Street, 4th Floor
Madison, Wisconsin 53703

EXHIBIT C TO THE DISCLOSURE DOCUMENT

FRANCHISE AGREEMENT

FRANCHISE AGREEMENT TABLE OF CONTENTS

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FRANCHISE AGREEMENT**

Hot Fries Franchise Agreement

Franchisor
Hot Fries Franchising, LLC
5825 Lincoln Ave. Ste. D, #260
Buena Park, CA 90620

Franchisee

This Franchise Agreement is by and between Hot Fries Franchising, LLC, a California Limited Liability Company, (“Franchisor”), and _____, [an individual *[or]* business entity established in the State of _____] (“Franchisee”) and is for the purpose of establishing a franchise relationship between the parties; whereas Franchisor intends to sell and Franchisee intends to own and operate a Hot Fries Franchised Business. Franchisor and Franchisee, intending to be legally bound, agree as follows:

1: Definitions.

Whenever used in this Agreement, the following words and terms have the following meanings:

“**Affiliate**” means any business entity that controls, is controlled by, or is under common control with Franchisor.

“**Agreement**” means this agreement entitled “Hot Fries Franchise Agreement” and all instruments supplemental hereto or in amendment or confirmation hereof.

“**Approved Location**” means the site for the operation of the Franchised Business selected by Franchisee and approved in writing by Franchisor.

“**Competitive Business**” means any business that offers or provides (or grants franchises or licenses to others to operate a business that offers or provides) services the same as or similar to those provided by Franchised Businesses or in which Trade Secrets or other Confidential Information could be used to the disadvantage of Franchisor, any Affiliate or its other franchisees; provided, however, that the term “Competitive Business” shall not apply to (a) any business operated by Franchisee under a Franchise Agreement with Franchisor, or (b) any business operated by a publicly-held entity in which Franchisee owns more than a five percent (5%) legal or beneficial interest.

“**Confidential Information**” means information used in or related to Hot Fries Franchised Businesses and not commonly known by or available to the public, including, without limitation, Trade Secrets and any other information identified or labeled as confidential when delivered by Franchisor.

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“Operations Manual” means the Hot Fries Operations Manual, whether in paper or electronic form, and any other items as may be provided, added to, changed, modified or otherwise revised by Franchisor from time to time that contain or describe the standards, methods, procedures and specifications of the System, including other operations, administration and managers’ manuals and all books, computer programs, password-protected portions of an Internet site, pamphlets, memoranda and other publications prepared by, or on behalf of, Franchisor.

“Designated Manager” means the individual designated by Franchisee as having primary responsibility for managing the daily affairs of the Franchised Business.

“Effective Date” means the date on which Franchisor and Franchisee fully execute this Agreement, thereby commencing its effectiveness and term.

“Franchise” means the right granted to Franchisee by Franchisor to use the System and the Marks.

“Franchised Business” means the Hot Fries business to be established and operated by Franchisee pursuant to this Agreement.

“Gross Revenue” means the aggregate of all revenue collected from all sources in connection with the Franchised Business, whether for check, cash, credit or otherwise including, without limitation, all proceeds from any business interruption insurance, but excluding (a) any revenue franchisee remits to a customer or property owner or collection agency that franchisee is contractually obligated to remit, (b) any chargeback fees franchisee pays to a collection agency, (c) any sales and equivalent taxes that are collected by Franchisee for or on behalf of any governmental taxing authority and paid thereto, and (d) any rebate received by Franchisee from a manufacturer or supplier.

“Incapacity” means the inability of Franchisee, or any holder of a legal or beneficial interest in Franchisee, to operate or oversee the operation of the Franchised Business on a regular basis by reason of any continuing physical, mental or emotional condition, chemical dependency or other limitation;

“Marks” means the trade name or trademark “Hot Fries” and such other trade names, trademarks, service marks, trade dress, designs, graphics, logos, emblems, insignia, fascia, slogans, drawings and other commercial symbols as Franchisor may designate to be used in connection with Hot Fries Franchised Businesses;

“System” means the uniform standards, methods, procedures and specifications developed by Franchisor and as may be added to, changed, modified, withdrawn or otherwise revised by Franchisor for the operation of Hot Fries Franchising, LLC Businesses; and

“Trade Secrets” means information in any form (including, but not limited to, technical or non-technical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans,

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passwords, lists of actual or potential customers or suppliers) related to or used in Hot Fries Franchised Businesses that are not commonly known by or available to the public and that: (a) derives economic value, actual or potential, from not being generally known to, and not being readily ascertained by proper means by, other persons who can obtain economic value from its disclosure or use; and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

2. Grant of Franchise and Approved Location.

2.1 Grant

Franchisor hereby grants to Franchisee, upon the terms and conditions herein contained, a revocable, limited license to operate one (1) Hot Fries Franchised Business using the System and Marks.

2.2 Approved Location

The street address (or detailed description of the premises) of the Approved Location for the operation of the Franchised Business is: _____

2.3 Approved Location Not Determined

If the Approved Location is determined as of the Effective Date, then this Section shall be inapplicable. If the Approved Location is not determined as of the Effective Date, then the geographic area in which the Approved Location is to be located shall be within the geographic area described below ("Designated Area"). Franchisee shall select and submit possible sites for Franchisor's evaluation in accordance with Section 5.1. When the Approved Location is determined, its address shall be inserted into Section 2.2, shall be initialed and dated by Franchisee and Franchisor and the Designated Area shall lapse. The failure to insert such address into Section 2.2, shall not automatically affect the enforceability of this Agreement. The Designated Area is delineated for the sole purpose of site selection and does not confer any territorial exclusivity or protection. A detailed description of the geographic area or boundaries of the Designated Area is: _____

2.4 Territory

Franchisee will receive an exclusive territory based on a 50,000 to 100,000 population. Franchisee shall receive a territory to be mutually agreed upon by Franchisor and Franchisee and depicted in the map in Section 2.7 below ("Territory"). Franchisee will operate the Franchised Business within the designated Territory and shall limit all direct marketing, advertising, and business activities within such area, as stated in Section 2.10. As long as this Agreement is in full force and effect and Franchisee is not in default

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under any of the terms hereof, Franchisor shall not limit or alter the boundaries of Franchisee's Territory. Franchisee's rights in the Territory are subject to Franchisor's rights articulated in Section 2.9.

2.5 Approved Relocation

If Franchisee wishes to relocate to a new Approved Location, Franchisee shall select and submit possible sites for Franchisor's evaluation in accordance with Sections 2.3 and 5.1. Franchisor shall not unreasonably withhold its approval.

2.6 Additional Franchise Outlets

Franchisee shall not be permitted to open additional Franchised Businesses within their territory. Additional franchises shall be governed by an additional franchise agreement.

2.7 Map and Description of Territory

The Territory shall be defined by and exist within the following zip codes or other physical, political or natural boundaries: _____

[Insert Map Here]

2.8 Sub-Franchising/Agents

Franchisee shall not sublicense the use of the System or Marks to any person or entity. Except as permitted in Section 18, Franchisee shall not grant any person or entity the right to perform any part of Franchisee's rights or obligations licensed hereunder.

2.9 Franchisor's Rights

Franchisor does not have the right to operate a business of the type being franchised with the Territory and does not reserve the right to use other channels of distribution to make sales within the Territory.

2.10 Marketing and Solicitation Restrictions

2.10.1 Franchisee shall not directly market to or solicit customers whose principal business office or property address is located outside of the Territory. Except as part of cooperative advertising implemented pursuant to Section 11.4, Franchisee shall not advertise in any media whose primary circulation is within the area of primary responsibility of another franchisee. Franchisor shall make reasonable efforts to enforce these restrictions with regard to Franchisee and any other Hot Fries Franchised Businesses, but under no circumstances shall Franchisor be required to engage in litigation or similar actions with regard to these restrictions.

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2.10.2 Despite the marketing restriction in the previous section, Franchisee shall be permitted to serve any customers regardless of their home or business location at their Approved Location within the Territory.

3. Fees.

3.1 Franchise Fee

Upon execution of this Agreement, Franchisee shall pay a fee ("Franchise Fee") to Franchisor of THIRTY THOUSAND DOLLARS (\$30,000). The Franchise Fee will be discounted to \$25,000 for the second Franchise Agreement and \$20,000 for the third and subsequent Franchise Agreements. The Franchise Fee shall be deemed fully earned upon execution of this Agreement and is nonrefundable, except under certain conditions set forth under Sections 5.2, and 8.3. The Franchise Fee is payment, in part, for expenses incurred by Franchisor in furnishing assistance and services to Franchisee as set forth in this Agreement and for costs incurred by Franchisor, including general sales and marketing expenses, training, legal, accounting and other professional fees.

Payment of all initial fees is postponed until after all of franchisor's initial obligations are complete and franchisee is open for business.

3.2 Weekly Royalty Fee

On or before the Monday of each week, for so long as this Agreement shall be in effect, Franchisor shall be entitled to a fee ("Royalty Fee") equal to six percent (6%) of the Gross Revenue for the previous week (Monday – Sunday). Franchisee shall pay weekly Royalty Fees in the following manner: Royalty Fees will be deducted automatically through EFT; and each weekly Royalty Fee payment made by Franchisee shall accompany a sales report included directly from the required POS System. If Franchisor requires Franchisee to pay Royalty Fees through electronic transfer as set forth in Section 3.4, such reports shall instead be submitted to Franchisor via facsimile transmission, e-mail or intranet system.

3.3 Taxes

Franchisee shall pay to Franchisor an amount equal to all sales taxes, excise taxes, use taxes, withholding taxes and similar taxes imposed on the fees payable by Franchisee to Franchisor hereunder and on services or goods furnished to Franchisee by Franchisor at the same time as Franchisee remits such fees to Franchisor, whether such services or goods are furnished by sale, lease or otherwise, unless the tax is an income tax assessed on Franchisor for doing business in the state where the Approved Location is located.

3.4 Late Fees

All Royalty Fees, Marketing Fund Contributions, amounts due for purchases by Franchisee from Franchisor and other amounts that are not received by Franchisor within five (5) days after the due date shall incur late fees at the rate of one and one-half percent (1.5%) per month (or the highest rate allowed by the law of the state where Franchisee is

EXHIBIT C TO THE DISCLOSURE DOCUMENT FRANCHISE AGREEMENT

located), from the date payment is due to the date payment is received by Franchisor. Franchisee shall pay Franchisor for all costs incurred by Franchisor in the collection of any unpaid and past due Royalty Fees, Marketing Fund Contributions or any other amounts due Franchisor, including reasonable accounting and legal fees. This Section shall not constitute an agreement by Franchisor to accept any payments after the due date or a commitment by Franchisor to extend credit to or otherwise finance Franchisee.

3.5 Application of Payments

Notwithstanding any designation by Franchisee, Franchisor shall have the right to apply any payments by Franchisee to any past due indebtedness of Franchisee for Royalty Fees, Marketing Fund Contributions, purchases from Franchisor or any other amount owed to Franchisor in any proportion or priority.

4. Term and Renewal.

4.1 Initial Term

This Agreement shall be effective and binding for an initial term of ten (10) years from the Effective Date, unless sooner terminated pursuant to Section 16.

4.2 Renewal Terms

Subject to the conditions below, Franchisee has the right to obtain a successor franchise at the expiration of the term of this Agreement by entering into a new franchise agreement with Franchisor. Franchisee's right to a successor franchise is unlimited successive renewal terms of five (5) years each. To qualify for a successor franchise, each of the following conditions shall have been fulfilled and remain true as of the last day of the term of this Agreement:

Franchisee has, during the entire term of this Agreement, fully complied with all material provisions of this Agreement;

Franchisee has access to and, for the duration of the successor franchise, the right to remain in possession of the Approved Location, or a suitable substitute location approved by Franchisor, which is in full compliance with Franchisor's then-current specifications and standards;

Franchisee has, at its expense, made such capital expenditures as were necessary to maintain uniformity with any Franchisor-required System modifications such that the Franchised Business reflects Franchisor's then-current standards and specifications;

Franchisee has satisfied all monetary obligations owed by Franchisee to Franchisor (or any Affiliate), and has timely met these obligations throughout the term of this Agreement;

Franchisee is not in default of any provision of this Agreement or any other agreement between Franchisee and Franchisor;

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Franchisee has given written notice of its intent to operate a successor franchise to Franchisor not less than nine (9) months nor more than twelve (12) months prior to the end of the term of this Agreement;

Franchisee has executed Franchisor's then-current form of franchise agreement that may be different from this Agreement (or has executed other documents at Franchisor's election that modify this Agreement to reflect the fact that the Franchise Agreement relates to the grant of a successor franchise), which franchise agreement shall supersede this Agreement in all respects, and the terms of which may differ from the terms of this Agreement by requiring, among other things, a different percentage Royalty Fee or Marketing Fund Contribution; provided, however, that Franchisee shall not be required to pay either a renewal fee or the then-current Franchise Fee;

Franchisee has complied with Franchisor's then-current qualifications for a new franchise and has agreed to comply with any training requirements; and

Franchisee has executed a general release, in a form the same as or similar to the General Release attached as Exhibit 1, of any and all claims against Franchisor, any Affiliate and against their officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities), except to the extent prohibited by the laws of the state where the Franchised Business is located.

5. Approved Location.

5.1 Selection of Site

Franchisee shall select a facility to lease or purchase for the operation of the Franchised Business to be approved by Franchisor ("Approved Location") If an Approved Location for the Franchised Business has not been determined as of the Effective Date, Franchisee shall promptly select a site for the Franchised Business and shall notify Franchisor of such selection. Franchisor shall evaluate the site and notify Franchisee of its approval or disapproval of the site within a reasonable time (usually thirty (30) days) of receiving notice of the site from Franchisee. If Franchisor approves of such selection, the site shall be designated as the Approved Location. If Franchisor does not approve of such selection, Franchisee shall select and notify Franchisor of new sites until Franchisor approves a site for the Franchised Business. Franchisor shall provide Franchisee with general guidelines to assist Franchisee in selecting a site suitable for the Approved Location. Franchisor has the right to approve or disapprove a proposed location based on such factors as it deems appropriate, including, without limitation, the condition of the premises, demographics of the surrounding area, proximity to other Hot Fries Franchised Businesses, proximity to Competitive Businesses, or the size of the location and lease requirements. Franchisee shall not locate the Franchised Business on a selected site without the prior written approval of Franchisor. ***Franchisor does not represent that it, or any of its Affiliates, owners, employees or agents, have special expertise in selecting sites. Neither Franchisor's assistance nor approval is intended to indicate or indicates that the Franchised Business will be profitable or successful at the***

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Approved Location. Franchisee is solely responsible for identifying the Approved Location.

5.2 Failure to Select Site

Should Franchisee fail to obtain an Approved Location within Six (6) Months after the Effective Date, Franchisor has the right to terminate this Agreement. If this Agreement is terminated pursuant to this Section 5.7, Franchisee would be offered the refund of 50% of the initial franchise fee and shall terminate any future obligations to Franchisee upon Franchisor's receipt of a general release, the same as or similar to the General Release attached as Exhibit 1, releasing any and all claims against Franchisor, any Affiliate and their officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities).

5.3 Lease of Approved Location

If Franchisee is to execute a lease for, or a binding agreement to purchase, the Approved Location, Franchisee must obtain Franchisor's approval of the terms. Franchisor shall not unreasonably withhold its approval. ***Franchisor's review of a lease or purchase agreement, or any advice or recommendation offered by Franchisor, shall not constitute a representation or guarantee that Franchisee will succeed at the Approved Location nor constitute an expression of Franchisor's opinion regarding the terms of such lease or purchase agreement. Franchisee acknowledges and agrees that Franchisee shall solely rely on its review of any such lease or purchase agreement.*** Franchisor shall be entitled to require that nothing therein contained is contradictory to, or likely to interfere with, Franchisor's rights or Franchisee's duties under this Agreement. Franchisee shall take all actions necessary to maintain the lease, if any, of the Approved Location while this Agreement is in effect. Any default for which the lease may be terminated shall also be deemed a default hereunder and the time to cure the same shall expire when the lease is terminated. Franchisor has the right to require that the lease for the Approved Location be collaterally assigned by Franchisee to Franchisor, pursuant to the terms of its standard collateral assignment of lease form, to secure performance by Franchisee of its obligation under this Agreement. Franchisor's approval of a lease shall be conditioned upon inclusion of terms in the lease acceptable to Franchisor and, at Franchisor's option, the lease shall contain such provisions as Franchisor may reasonably require, including but not limited to:

a provision reserving to Franchisor the right, but not the obligation, at Franchisor's election, to receive an assignment of the leasehold interest without payment of any assignment fee or similar charge and without a requirement for the payment of an additional security deposit or any increase in rent or other fees upon termination or expiration of the Franchise. The lessor agrees that, before the effective date of any assignment of the lease to Franchisor (or its designee), Franchisee shall be solely responsible for all obligations, debts and payments under the lease. Franchisee shall not be entitled to a return of its security deposit;

EXHIBIT C TO THE DISCLOSURE DOCUMENT FRANCHISE AGREEMENT

a provision requiring the lessor to provide Franchisor with a copy of any written notice of deficiency sent by the lessor to Franchisee, and granting to Franchisor the right (but not the obligation) to cure any deficiency under the lease should Franchisee fail to do so within fifteen (15) days after the expiration of the period in which Franchisee may cure the default;

a provision requiring the lessor to provide Franchisor (at the same time lessor provides to Franchisee) a copy of all lease amendments and assignments, and a copy of all letters and notices lessor sends to Franchisee relating to the lease or the leased premises;

a provision permitting Franchisor to enter the leased premises to make any modifications or alterations necessary in Franchisor's sole discretion to protect the System and the Marks without being guilty of trespass, or other tort or other crime;

a provision allowing Franchisee to display the Marks in accordance with the specifications required by the Operations Manual, subject only to the provisions of applicable law;

a provision prohibiting the premises from being used for any purpose other than the operation of the Franchised Business;

a provision allowing Franchisor, upon expiration and non-renewal or termination of the lease or the Franchise Agreement, to enter the premises and remove any interior and exterior signs containing the Marks and trade fixtures;

a provision stating that upon default of this Agreement, Franchisor or its nominee has the right, but not the obligation, to take possession of the Approved Location and operate the Franchised Business and notwithstanding Franchisor's (or the nominee's) possession, the lessor agrees that during all times prior to an assignment of the lease to Franchisor (or its designee), Franchisee shall be solely responsible for all obligations, debts and payments under the lease incurred prior to or during such possession and prior to such assignment; and

a provision stating that lessor shall not amend or otherwise modify the lease in any manner that would affect any of the foregoing provisions to be included in the lease set forth above without Franchisor's prior written consent.

5.4 Development of Approved Location

Franchisor shall make available to Franchisee, at no charge to Franchisee, specifications for the development of the Approved Location, including specifications for improvements, supplies and equipment that are necessary for the development and operation of a Hot Fries Franchised Business. Franchisee shall cause the Approved Location to be developed, equipped and improved in accordance with such specifications within 8 months of the Effective Date. In connection with the development of the Approved Location, Franchisee shall:

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obtain all permits and licenses required for operation of the Franchised Business, and certify in writing that all such permits and certifications have been obtained;

purchase any supplies or inventory necessary for the operation of the Franchised Business, as specified in the Operations Manual;

purchase and install all equipment, furniture and fixtures, including any software and computer equipment, required by Franchisor for the operation of the Franchised Business; and

establish broadband or high-speed Internet access and obtain at least one (1) telephone number and one (1) facsimile number solely dedicated to the Franchised Business.

5.5 Failure to Develop Approved Location

Should Franchisee fail to develop the Approved Location within 2 Months after the site approval, Franchisor has the right to terminate this Agreement. If this Agreement is terminated pursuant to this Section, Franchisor shall terminate any future obligations to Franchisee upon Franchisor's receipt of a general release, the same as or similar to the General Release attached as Exhibit 1, releasing any and all claims against Franchisor, any Affiliate and their officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities).

5.6 Opening

Time is of the essence. Before opening the Franchised Business and commencing business, Franchisee shall be prepared to open and continuously operate the Franchised Business within 8 Months of the Effective Date, and Franchisee:

fulfill all of the obligations of Franchisee pursuant to the other provisions of this Section 5;

furnish Franchisor with copies of all insurance policies required by this Agreement, or by the lease (if any), or such other evidence of insurance coverage and payment of premiums as Franchisor may request;

complete initial training to the satisfaction of Franchisor;

hire and train the personnel necessary or required for the operation of the Franchised Business;

if Franchisee is a business entity, cause each of its stock certificates or other ownership interest certificates to be conspicuously endorsed upon the face thereof a statement in a form satisfactory to Franchisor that such ownership interest is held subject to, and that further assignment or transfer thereof is subject to, all restrictions imposed upon transfers and assignments by this Agreement;

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obtain Franchisor's permission and approval of an opening date; Franchisor shall not unreasonably withhold consent to open. Permission to open shall be based on Franchisor's determination that Franchisee is ready to open and satisfactorily prepared to operate; and

pay in full all amounts due to Franchisor.

5.7 Failure to Open

Should Franchisee fail to commence operations of the Franchised Business within 2 Months after the Site Approval Date, Franchisor has the right to terminate this Agreement. If this Agreement is terminated pursuant to this Section, Franchisor shall refund 50% of the Franchise Fee paid by Franchisee. The amount of the Franchise Fee retained shall be specifically understood and agreed by the parties to be in consideration of the services provided, time expended, work performed, and other efforts of Franchisor up to the date of Franchisee's failure to timely commence operations of the Franchised Business and shall not be construed as nor considered to be a penalty.

5.8 Use of Approved Location

Franchisee shall not use the Approved Location for any purpose other than for the operation of a Franchised Business in full compliance with this Agreement and the Operations Manual, unless approved in writing by Franchisor.

5.9 Relocation

Franchisee shall not relocate the Approved Location without the prior written consent of Franchisor. If the Approved Location is leased, and the lease expires or terminates through no fault of Franchisee or if the Approved Location's location is destroyed, condemned or otherwise rendered unusable, Franchisee may request the right to relocate the Approved Location either permanently or temporarily as appropriate under the circumstances and Franchisor shall not unreasonably withhold its consent to such relocation. Should Franchisee desire to relocate the Approved Location for any other reason, Franchisee shall request the right and Franchisor may approve or disapprove such request. Any relocation of the Approved Location shall be at Franchisee's sole expense, and shall proceed in accordance with the requirements set forth in the Franchise Agreement. Franchisor has the right to charge Franchisee for any costs incurred by Franchisor in providing assistance to Franchisee, including, but not limited to, legal and accounting fees. Notwithstanding the foregoing, Franchisor has no obligation to provide relocation assistance. If Franchisor and Franchisee do not agree upon a substitute site within ninety (90) days after the lease expires or is terminated or the Approved Location is rendered unusable, this Agreement shall terminate as provided in Section 16.2.1.1.

6. Proprietary Marks.

6.1 Ownership

Franchisee's right to use the Marks is derived solely from this Agreement, is nonexclusive and is limited to the conduct of business by Franchisee pursuant to, and in

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compliance with, this Agreement and all applicable standards, specifications and operating procedures prescribed from time to time by Franchisor. Any unauthorized use of the Marks by Franchisee is a breach of this Agreement and an infringement of the rights of Franchisor in and to the Marks. Franchisee's use of the Marks, and any goodwill created thereby, shall inure to the benefit of Franchisor. Franchisee shall not at any time acquire an ownership interest in the Marks by virtue of any use it may make of the Marks. This Agreement does not confer any goodwill, title or interest in the Marks to Franchisee. Franchisee shall not, at any time during the term of this Agreement or after its termination or expiration, contest the validity or ownership of any of the Marks or assist any other person in contesting the validity or ownership of any of the Marks.

6.2 Limitations on Use

Franchisee shall not use any Mark or portion of any Mark as part of any business entity name. Franchisee shall not use any Mark in connection with the sale of any unauthorized product or service or in any other manner not expressly authorized in writing by Franchisor. Franchisee shall give such notices of trademark and service mark registrations as Franchisor specifies and obtain such fictitious or assumed name registrations as may be required under applicable law to do business as a Franchised Business. Franchisee shall not register or seek to register as a trademark or service mark, either with the United States Patent and Trademark Office or any state or foreign country, any of the Marks or a trademark or service mark that is confusingly similar to any Mark licensed to Franchisee. Franchisee shall include on its letterhead, forms, cards and other such identification, and shall display at the Approved Location, a prominent notice stating that the Franchised Business is an "Independently Owned and Operated Franchise" of Franchisee.

6.3 Notification of Infringements and Claims

Franchisee shall immediately notify Franchisor of any infringement of the Marks or challenge to its use of any of the Marks or claim by any person of any rights in any of the Marks. Franchisee shall not communicate with any person other than Franchisor and Franchisor's counsel in connection with any such infringement, challenge or claim; provided, however, Franchisee may communicate with Franchisee's counsel at Franchisee's expense. Franchisor has the right to take such action as it deems appropriate and the right to exclusively control any litigation or other proceeding arising out of any infringement, challenge, or claim or otherwise relating to any of the Marks. Franchisee shall execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of Franchisor's counsel, be necessary or advisable to protect and maintain Franchisor's interests in any such litigation or other proceeding or to otherwise protect and maintain Franchisor's interest in the Marks.

6.4 Indemnification for Use of Marks

Franchisor shall reimburse Franchisee for all expenses reasonably incurred by Franchisee in any trademark or similar proceeding disputing Franchisee's authorized use of any Mark, provided that Franchisee has complied with the provisions of Section 6.3 and has complied with this Agreement and Franchisor's directions in responding to such

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proceeding. At Franchisor's option, Franchisor or its designee may defend and control the defense of any proceeding arising directly from Franchisee's use of any Mark. This indemnification shall, not include the expense to Franchisee of removing signage or discontinuance of the use of the Marks; not apply to litigation between Franchisor and Franchisee wherein Franchisee's use of the Marks is disputed or challenged by Franchisor; not apply to any separate legal fees or costs incurred by Franchisee in seeking independent counsel separate from the counsel representing Franchisor and Franchisee in the event of litigation disputing Franchisor and Franchisee's use of the Marks.

6.5 Discontinuance of Use

If Franchisor deems it necessary for Franchisee to modify or discontinue use of any of the Marks, and/or use one (1) or more additional or substitute trade names, trademarks, service marks or other commercial symbols, Franchisee shall comply with Franchisor's directions within ten (10) business days after notice to Franchisee by Franchisor and subject to the limitations in Section 10.2. Franchisor shall not be required to reimburse Franchisee for its expenses in modifying or discontinuing the use of a Mark or any loss of goodwill associated with any modified or discontinued Mark or for any expenditures made by Franchisee to promote a modified or substitute Mark.

6.6 Right to Inspect

To preserve the validity and integrity of the Marks licensed hereunder, and to ensure that Franchisee is properly employing the Marks in the operation of the Franchised Business, Franchisor and its designees have the right to enter and inspect the Approved Location at all reasonable times and, additionally, have the right to observe the manner in which Franchisee renders services and conducts activities and operations, and to inspect facilities, equipment, products, supplies, reports, forms and documents and related data to ensure that Franchisee is operating the Franchised Business in accordance with the quality control provisions and performance standards established by Franchisor. Franchisor and its agents shall have the right, at any reasonable time, to remove sufficient quantities of products, supplies or other items to test whether such products or items meet Franchisor's then-current standards. Franchisor or its designee has the right to observe Franchisee and its employees during the operation of the Franchised Business and to interview and survey (whether in person or by mail) customers and employees and to photograph or videotape the operations.

6.7 Franchisor's Sole Right to Domain Name

Franchisee shall not advertise on the Internet using, or establish, create or operate an Internet site or website using a domain name or uniform resource locator containing, the Marks or the words "Hot Fries" or any variation thereof without Franchisor's written approval. Franchisor is the sole owner of all rights, title and interest in and to such domain names as Franchisor shall designate in the Operations Manual.

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7. Trade Secrets and Other Confidential Information.

7.1 Confidentiality of Trade Secrets and Other Confidential Information

Franchisee acknowledges that Franchisor shall disclose Trade Secrets and other Confidential Information to Franchisee during the training program, through the Operations Manual, and as a result of guidance furnished to Franchisee during the term of this Agreement. Franchisee shall not acquire any interest in the Trade Secrets or other Confidential Information, other than the right to use it in the development and operation of the Franchised Business and in performing its duties during the term of this Agreement. Franchisee acknowledges that the use or duplication of the Trade Secrets or other Confidential Information in any other business venture would constitute unfair competition. Franchisee acknowledges that the Trade Secrets and other Confidential Information are proprietary and are disclosed to Franchisee solely on the condition that Franchisee (and all holders of a legal or beneficial interest in Franchisee and all officers, directors, executives, managers and members of the professional staff of Franchisee): (a) shall not use the Trade Secrets or other Confidential Information in any other business or capacity; (b) shall maintain the absolute confidentiality of the Trade Secrets and other Confidential Information during and after the term of this Agreement; (c) shall not make any unauthorized copies of any portion of the Trade Secrets or other Confidential Information disclosed in written or other tangible form; and (d) shall adopt and implement all reasonable procedures prescribed from time to time by Franchisor to prevent unauthorized use or disclosure of the Trade Secrets and other Confidential Information. Franchisee shall enforce this Section as to its employees, agents and representatives and shall be liable to Franchisor for any unauthorized disclosure or use of Trade Secrets or other Confidential Information by any of them.

7.2 Additional Developments

All ideas, concepts, techniques or materials concerning the System or developed, in whole or in part, using Trade Secrets or other Confidential Information, whether or not protectable intellectual property and whether created by or for Franchisee or its owners or employees, shall be promptly disclosed to Franchisor and shall be deemed the sole and exclusive property of Franchisor and works made-for-hire for Franchisor, and no compensation shall be due to Franchisee or its owners or employees therefore, and Franchisee agrees to assign to Franchisor all right, title and interest in any intellectual property so developed. Franchisor has the right to incorporate such items into the System. To the extent any item does not qualify as a “work made-for-hire” for Franchisor, Franchisee shall assign, and by this Agreement, does assign, ownership of that item, and all related rights to that item, to Franchisor and shall sign any assignment or other document as Franchisor requests to assist Franchisor in obtaining or preserving intellectual property rights in the item. Franchisor shall disclose to Franchisee concepts and developments of other franchisees that are made part of the System. As Franchisor may reasonably request, Franchisee shall take all actions to assist Franchisor’s efforts to obtain or maintain intellectual property rights in any item or process related to the System, whether developed by Franchisee or not.

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7.3 Exclusive Relationship

Franchisee acknowledges that Franchisor would be unable to protect the Trade Secrets and other Confidential Information against unauthorized use or disclosure and would be unable to encourage a free exchange of ideas and information among Hot Fries franchisees if owners of Franchised Businesses and members of their immediate families or households were permitted to hold an interest in or perform services for any Competitive Business. Therefore, during the term of this Agreement, neither Franchisee nor any holder of a legal or beneficial interest in Franchisee (or any member of their immediate families or households), nor any officer, director, executive, manager or member of the professional staff of Franchisee, either directly or indirectly, for themselves, or through, on behalf of or in conjunction with any person, partnership, corporation, limited liability company or other business entity, shall:

divert or attempt to divert any business or customer of the Franchised Business to any Competitive Business, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks or the System; or

own an interest in, manage, operate, or perform services for any Competitive Business wherever located.

7.4 Nondisclosure and Non-Competition Agreements with Certain Individuals

Franchisor has the right to require any holder of a legal or beneficial interest in Franchisee (and any member of their immediate families or households), and any officer, director, executive, manager or member of the professional staff of Franchisee to execute a nondisclosure and non-competition agreement, in a form the same as or similar to the Nondisclosure and Non-Competition Agreement attached as Exhibit 2, upon execution of this Agreement or prior to each such person's affiliation with Franchisee. Upon Franchisor's request, Franchisee shall provide Franchisor with copies of all nondisclosure and non-competition agreements signed pursuant to this Section. Such agreements shall remain on file at the offices of Franchisee and are subject to audit or review as otherwise set forth herein. Franchisor shall be a third party beneficiary with the right to enforce covenants contained in such agreements.

7.5 Reasonableness of Restrictions

Franchisee acknowledges that the restrictive covenants contained in this Section are essential elements of this Agreement and that without their inclusion, Franchisor would not have entered into this Agreement. Franchisee acknowledges that each of the terms set forth herein, including the restrictive covenants, is fair and reasonable and is reasonably required for the protection of Franchisor, the System and the Marks and Franchisee waives any right to challenge these restrictions as being overly broad, unreasonable or otherwise unenforceable.

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8. Training and Assistance.

8.1 Initial Training

Franchisor shall make an initial training program available to one (1) Designated Manager and up to two (2) assistants. Approximately sixty (60) days prior to the opening of the Franchised Business, the Designated Manager must attend and successfully complete, to Franchisor's satisfaction, an initial training program pertaining to the operation and administration of the Franchised Business including, but not limited to, sales and marketing methods; financial controls; maintenance of quality standards; operational procedures; customer service techniques; record keeping; and reporting procedures and other operational issues. Franchisor shall conduct the initial training program at its headquarters, Franchisee's Approved Location or at another designated location. Franchisor shall not charge tuition or similar fees for initial training, however, all expenses incurred by Franchisee in attending such program including, but not limited to, travel costs, room and board expenses and employees' salaries, shall be the sole responsibility of Franchisee. Franchisee shall be responsible for training its management and other employees.

8.2 Opening Assistance

In conjunction with the beginning of operation, but not to exceed 60 days from the opening of the Franchised Business, Franchisor shall make available to Franchisee, at Franchisor's expense, a minimum of two (2) of Franchisor's representatives, experienced in the System, for the purpose of familiarizing Franchisee's staff with the Franchised Business System techniques and for the purpose of providing general assistance and guidance in connection with the opening of the Franchised Business. If Franchisee requests additional assistance with respect to the opening or continued operation of the Franchised Business, and should Franchisor deem it necessary and appropriate to comply with such request, Franchisee shall pay Franchisor's then-current standard rates, plus expenses, for such additional assistance.

8.3 Failure to Complete Initial Training Program

If Franchisor determines that the Designated Manager is unable to satisfactorily complete the training program described above, Franchisor has the right to terminate this Agreement. If this Agreement is terminated pursuant to this Section, Franchisor shall return to Franchisee fifty percent (50%) of the Franchise Fee paid by Franchisee upon Franchisor's receipt of a general release, the same as or similar to the General Release attached as Exhibit 1, releasing any and all claims against Franchisor, any Affiliate and their officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities). If Franchisee is a business entity and the Designated Manager fails to complete the initial training program to Franchisor's reasonable satisfaction, Franchisee may be permitted to select a substitute manager and such substitute manager must complete the initial training to Franchisor's satisfaction.

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8.4 New Designated Manager

After beginning operations, should Franchisee name a new Designated Manager, Franchisee must notify Franchisor of the identity of the new Designated Manager and the new Designated Manager must complete the initial training program to Franchisor's satisfaction within thirty (30) days of being named. The new Designated Manager may attend the initial training program without charge, provided that Franchisor has the right to require Franchisee to pay the costs of training if Franchisor determines that manager changes are excessive or caused by poor hiring practices. Franchisee shall be responsible for all travel costs, room and board and employees' salaries incurred in connection with the new Designated Manager's attendance at such training.

8.5 Ongoing Training

From time to time, Franchisor may provide and if it does, has the right to require that the Designated Manager attend ongoing training programs or seminars during the term of this Agreement. Franchisor shall not charge a fee for any mandatory ongoing training. Franchisee shall be responsible for all travel costs, room and board and employees' salaries incurred in connection with the Designated Manager's attendance at such training.

9. Operations Manual.

9.1 Loan by Franchisor

While this Agreement is in effect, Franchisor shall lend to Franchisee one (1) copy of the Operations Manual or grant Franchisee access to an electronic copy of the Operations Manual. Franchisee shall conduct the Franchised Business in strict accordance with the provisions set forth in the Operations Manual. The Operations Manual may consist of one (1) or more separate manuals and other materials as designated by Franchisor and may be in written or electronic form. The Operations Manual shall, at all times, remain the sole property of Franchisor and shall promptly be returned to Franchisor upon expiration or termination of this Agreement.

9.2 Revisions

Franchisor has the right to add to or otherwise modify the Operations Manual from time to time to reflect changes in the specifications, standards, operating procedures and rules prescribed by Franchisor; provided, however, that no such addition or modification shall materially alter Franchisee's fundamental status and rights under this Agreement. Franchisor may make such additions or modifications without prior notice to Franchisee. Franchisee shall immediately, upon notice, adopt any such changes and shall ensure that its copy of the Operations Manual is up-to-date at all times. If a dispute as to the contents of the Operations Manual arises, the terms of the master copy of the Operations Manual maintained by Franchisor at Franchisor's headquarters shall be controlling.

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9.3 Confidentiality

The Operations Manual contains Trade Secrets and other Confidential Information of Franchisor and its contents shall be kept confidential by Franchisee both during the term of the Franchise and subsequent to the expiration and non-renewal or termination of this Agreement. Franchisee shall at all times ensure that its copy of the Operations Manual is available at the Approved Location in a current and up-to-date manner. If the Operations Manual is in paper form or stored on computer-readable media, Franchisee shall maintain the Operations Manual in a secure manner at the Approved Location; if the Operations Manual is in electronic form, Franchisee shall maintain the Operations Manual in a password-protected file. Franchisee shall only grant authorized personnel, as defined in the Operations Manual, access to the Operations Manual or any key, combination or passwords needed for access to the Operations Manual. Franchisee shall not disclose, duplicate or otherwise use any portion of the Operations Manual in an unauthorized manner.

10. Franchise System.

10.1 Uniformity

Franchisee shall strictly comply, and shall cause the Franchised Business and its employees to strictly comply, with all requirements, specifications, standards, operating procedures and rules set forth in this Agreement, the Operations Manual or other communications supplied to Franchisee by Franchisor.

10.2 Modification of the System

Franchisor has the right to change or modify the System from time to time including, without limitation, the adoption and use of new or modified Marks or copyrighted materials, and computer hardware, software, equipment, inventory, supplies or sales and marketing techniques. Franchisee shall accept and use any such changes in, or additions to, the System as if they were a part of this Agreement as of the Effective Date. Franchisee shall make such expenditures as such changes, additions or modifications in the System may reasonably require; provided, however, Franchisee shall not be required to implement or conform to any such changes, additions or modifications if the cost to do so would exceed (a) ONE DOLLAR (\$1.00) during the first (1st) year of the term of this Agreement; (b) TWENTY FIVE THOUSAND DOLLARS (\$25,000.00) in the aggregate during the initial term of this Agreement (which amounts may be increased consistent with increases to the Consumer Price Index, U.S. City Average, all items, 1982-84=100, as published by the United States Department of Labor, Bureau of Labor Statistics "CPI-U"); or (c) ONE DOLLAR (\$1.00) during the final year of the term of this Agreement if Franchisee provides written notice of its intention not to renew the Franchise. Any required expenditure for changes or upgrades to the System shall be in addition to expenditures for repairs and maintenance as required in Section 13.2. Notwithstanding the foregoing, Franchisee shall be required to make any and all improvements or modifications whenever such are required by law, regulation, agency decision or court order.

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10.3 Variance

Franchisor has the right to vary standards or specifications for any franchisee based upon that particular franchisee's qualifications, the peculiarities of the particular site or circumstances, the demographics of the trade area, business potential, existing business practices or any other condition which Franchisor deems to be of importance to the successful operation of any particular Franchised Business. Franchisor shall not be required to disclose or grant to Franchisee a like or similar variance granted to another franchisee.

11. Advertising and Promotional Activities.

11.1 Grand Opening Advertising

Prior to, and/or during a period of approximately three (1) month following the initial opening of the Franchised Business, Franchisee shall spend an amount specified by Franchisor on local advertisement and promotion of the initial opening ("Grand Opening Advertising"). Franchisor shall determine and specify an appropriate minimum amount which Franchisee shall be required to expend on Grand Opening Advertising based upon Franchisor's general assessment of the area surrounding the Franchised Business and taking into account other potentially relevant factors, such as prevailing costs of advertising in the area, the time of year of opening and other similar factors. Further, Franchisor shall specify the time at which Franchisee shall conduct Grand Opening Advertising. Prior to their use, all materials to be used in Grand Opening Advertising must be approved by Franchisor through the process set forth in Section 11.2.2. Grand Opening Advertising expenditures shall be in addition to any Local Advertising expenditures and Marketing Fund Contributions.

11.2 Local Advertising

11.2.1 Franchisee shall continuously promote the Franchised Business. Every month, Franchisee shall spend two percent (2%) of its monthly Gross Revenue on advertising, promotions and public relations within the immediate locality surrounding the Franchised Business ("Local Advertising"). Such expenditures shall be made directly by Franchisee, subject to the prior approval and direction of Franchisor. Franchisor shall provide general guidelines to Franchisee for conducting Local Advertising. Within thirty (30) days after the end of each month, Franchisee shall furnish to Franchisor an accurate accounting of the expenditures on Local Advertising for the preceding month.

11.2.2 Franchisee shall submit to Franchisor, for its prior approval, all advertising and promotional materials to be used by Franchisee including, but not limited to, television ads, radio ads, ad copy, coupons, flyers, scripts and direct mail. Franchisor shall use reasonable efforts to provide notice of approval or disapproval within twenty (20) days from the date all requested material is received by Franchisor. If Franchisor does not approve submitted materials by the end of such twenty (20) day period, such materials shall be deemed to have received the required approval. Franchisee shall not use any marketing or promotional material prior to approval by Franchisor. The submission of advertising materials to Franchisor for approval shall not affect

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Franchisee's right to determine the prices at which Franchisee sells products or provides services.

11.3 Marketing Fund

11.3.1 Franchisor has established and administers a System-wide marketing, advertising and promotion fund to assist in Franchisor's regional and national advertising ("Marketing Fund"). Franchisee shall be required to contribute 2% of Gross Sales Weekly to the Marketing Fund in an amount specified by Franchisor and which Franchisor may adjust from time to time ("Marketing Fund Contribution"). Marketing Fund Contributions shall be made at the time and in the manner provided for Royalty Fees in Section 3.2. Franchisor shall notify Franchisee at least thirty (30) days before changing Marketing Fund Contribution requirements.

11.3.2 The Marketing Fund shall be maintained and administered by Franchisor or its designee as follows: Franchisor shall oversee all marketing programs, with sole control over creative concepts, materials and media used in such programs, and the placement and allocation thereof. Franchisor does not warrant that any particular franchisee will benefit directly or *pro rata* from expenditures by the Marketing Fund. The program(s) may be local, regional or System-wide. Franchisor does not warrant the success or effectiveness of any particular marketing program.

11.3.3 Franchisee's Marketing Fund Contributions may be used to meet the costs of, or to reimburse Franchisor for its costs of, producing, maintaining, administering and directing consumer advertising (including, without limitation, the cost of preparing and conducting television, radio, Internet, magazine, newspaper, and direct mail advertising campaigns and other public relations activities; developing and/or hosting an Internet web page or site and similar activities; employing advertising agencies to assist therein; and providing promotional brochures and other marketing materials to franchisees). All Marketing Fund Contributions shall be maintained in a separate account from the monies of Franchisor and shall not be used to defray any of Franchisor's general operating expenses, except for such reasonable costs and expenses, if any, that Franchisor may incur in activities reasonably related to the administration of the Marketing Fund.

11.3.4 Franchisor shall endeavor to spend all Marketing Fund Contributions on marketing programs and promotions during Franchisor's fiscal year within which such contributions are made. If excess amounts remain in any Marketing Fund at the end of such fiscal year, all expenditures in the following fiscal year(s) shall be made first out of such excess amounts, including any interest or other earnings of the Marketing Fund, and next out of prior year contributions and then out of current contributions.

11.3.5 Although Franchisor intends the Marketing Fund to be of perpetual duration, Franchisor has the right to terminate the Marketing Fund at any time. The Marketing Fund shall not be terminated, however, until all Marketing Fund Contributions have been expended for advertising and promotional purposes or returned to Franchisee and other franchisees on a *pro rata* basis based on total Marketing Fund Contributions made in the aggregate by each franchisee.

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11.3.6 Each franchised business operated by Franchisor or an Affiliate shall make Marketing Fund Contributions at the same rate as Franchised Businesses.

11.3.7 An accounting of the operation of the Marketing Fund shall be prepared annually and shall be available to Franchisee upon request. Franchisor retains the right to have the Marketing Fund reviewed or audited and reported on, at the expense of the Marketing Fund, by an independent certified public accountant selected by Franchisor.

11.3.8 Franchisee acknowledges that the Marketing Fund is not a trust and Franchisor assumes no fiduciary duty in administering the Marketing Fund.

11.4 Cooperative Advertising

Franchisor has the right, but not the obligation, to create a cooperative advertising program for the benefit of Franchised Businesses located within a particular region. Franchisor has the right to collect and designate all or a portion of the Local Advertising to payments or contributions to Franchisor for the funding of a cooperative advertising program. Franchisor has the right to determine the composition of all geographic territories and market areas for the implementation of each cooperative advertising program and to require that Franchisee participate in such cooperative advertising programs when established within Franchisee's region. If a cooperative advertising program is implemented in a particular region, Franchisor has the right to administer the cooperative advertising Program or to establish an advertising council of franchisees to self-administer the cooperative advertising program. Franchisee shall participate in the council according to the rules and procedures established by the council and Franchisee shall abide by the council's decisions. Should Franchisor establish a cooperative advertising program or programs with or without an advertising council, Franchisor has the right, but not the obligation, to change, dissolve or merge such program(s) and/or council(s) at any time.

11.5 Internet Advertising

Franchisee may not establish a presence on, or market using, the Internet in connection with the Franchised Business without Franchisor's prior written consent. Franchisor has established and maintains an Internet website at the uniform resource locator www.HotFriesUSA.com that provides information about the System and the products and services that Franchisor and its franchisees provide. Franchisor may (but is not required to) include at the Hot Fries website an intranet section or an interior page containing information about the Franchised Business. If Franchisor includes such information on the Hot Fries website, Franchisor has the right to require Franchisee to prepare all or a portion of the section or page, at Franchisee's expense, using Hot Fries' approved marketing team. All such information shall be subject to Franchisor's approval prior to posting. Franchisor retains the sole right to advertise and sell the products and services offered by franchised businesses and to or use the Marks on the Internet, including the use of websites, domain names, uniform resource locators, keywords, linking, search engines (and search engine optimization techniques), banner ads, meta-tags, marketing, auction sites, e-commerce and co-branding arrangements. Franchisee

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may be requested to provide content for Franchisor's Internet marketing and shall be required to follow Franchisor's intranet and Internet usage rules, policies and requirements. Franchisor retains the sole right to approve any linking to, or other use of, the Hot Fries website.

12. Accounting, Records and Reporting Obligations.

12.1 Records

During the term of this Agreement, Franchisee shall maintain full, complete and accurate books, records and accounts in accordance with the standard accounting system prescribed by Franchisor in the Operations Manual or otherwise in writing. Franchisee shall retain during the term of this Agreement, and for three (3) years thereafter, all books and records related to the Franchised Business including, without limitation, purchase orders, invoices, payroll records, sales tax records, state and federal tax returns, bank statements, cancelled checks, deposit receipts, cash receipts and disbursement journals, general ledgers, and any other financial records designated by Franchisor or required by law.

12.2 Gross Revenue Reports

Franchisee shall maintain an accurate record of daily Gross Revenue and shall deliver to Franchisor via facsimile transmission, email, or the intranet, a signed and verified statement of monthly Gross Revenue ("Gross Revenue Report") for the tenth (10th) day of each month for the previous month in a form that Franchisor approves or provides in the Operations Manual. The Gross Revenue Report for the preceding month must be provided to Franchisor by the close of business on the tenth (10th) day of each month as provided in Section 3.2.

12.3 Financial Statements

Franchisee shall supply to Franchisor on or before the tenth (10th) day of each month following the close of a quarter, in a form approved by Franchisor, a balance sheet as of the end of the last day of the preceding month and an income statement for the preceding quarter and the fiscal year-to-date. Franchisee shall, at its expense, submit to Franchisor within ninety (90) days after the end of each calendar year, an income statement for the calendar year just ended and a balance sheet as of the last day of the calendar year. Such financial statements shall be prepared in accordance with GAAP, applied on a consistent basis. As required by Franchisor, such financial statements shall be reviewed or audited by a certified public accountant. Franchisee shall submit to Franchisor such other periodic reports in the manner and at the time specified in the Operations Manual or otherwise in writing.

12.4 Other Reports

Franchisee shall submit to Franchisor copies of all state sales tax returns that are required to be filed with the appropriate governmental agency and such other records as Franchisor may reasonably request from time to time or as specified in the Operations

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Manual. Franchisor shall have the right to release financial and operational information relating to the Franchised Business to Franchisor's lenders or prospective lenders. Franchisee shall certify as true and correct all reports to be submitted pursuant to this Agreement.

12.5 Computer Equipment

Franchisor reserves the right to require Franchisee to purchase, install and use computer and point-of-sale systems consisting of hardware and software in accordance with Franchisor's specifications. Franchisor shall have full access to all of Franchisee's computer and point-of-sale data and systems and all related information by means of direct access, either in person or by telephone, modem or Internet to permit Franchisor to verify Franchisee's compliance with its obligations under this Agreement.

12.6 Right to Inspect

Franchisor or its designee has the right, during normal business hours, to examine, copy and audit the books, records and tax returns of Franchisee. If the audit or any other inspection should reveal that any payments to Franchisor have been underpaid, then Franchisee shall immediately pay to Franchisor the amount of the underpayment plus interest from the date such amount was due until paid at the rate of eighteen percent (18%) per annum (or the highest rate allowed by the law of the state where Franchisee is located, whichever is lower). If the audit or any other inspection discloses an underpayment of three percent (3%) or more of the amount due for any period covered by the audit, Franchisee shall, in addition, reimburse Franchisor for any and all costs and expenses connected with the inspection (including, without limitation, travel expenses and reasonable accounting and attorneys' fees). The foregoing remedies shall be in addition to any other remedies Franchisor may have.

12.7 Release of Records

At Franchisor's request, Franchisee shall authorize and direct any third parties, including accounting and legal professionals, to release to Franchisor all accounting and financial records arising from or relating to the operation of the Franchised Business including, but not limited to, records evidencing Gross Revenue, profits, losses, income, tax liabilities, tax payments, revenues, expenses, and any correspondence, notes, memoranda, audits, business records, or internal accounts within said third parties' possession, custody or control, and to continue to release such records to Franchisor on a monthly basis for the length of the unexpired term of this Agreement or until such time as Franchisor withdraws its request. Franchisee shall execute all documents necessary to facilitate the release of records referenced herein to Franchisor.

13. Standards of Operation.

13.1 Authorized Products, Services and Suppliers

13.1.1 Franchisee acknowledges that the reputation and goodwill of the System is based in large part on offering high quality products and services to its customers.

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Accordingly, Franchisee shall provide or offer for sale or use at the Franchised Business only those items and services that Franchisor from time to time approves (and which are not thereafter disapproved) and that comply with Franchisor's specifications and quality standards.

13.1.2 Franchisor shall provide Franchisee, in the Operations Manual or other written or electronic form, with a list of specifications and a list of Approved Suppliers for some or all of the supplies, signs, furniture, fixtures, inventory, equipment and other approved or specified items and services. Franchisor may from time to time issue revisions to such list. Franchisee shall not offer for sale, sell or provide through the Franchised Business or from the Approved Location any products or services that Franchisor has not approved. Franchisor may revoke its approval of any item, service or supplier at any time by notifying Franchisee and/or the supplier. Franchisee shall, at its own expense, promptly cease using, selling or providing any items or services disapproved by Franchisor and shall promptly cease purchasing from suppliers disapproved by Franchisor.

13.1.3 If Franchisee desires to utilize any products or services that Franchisor has not approved (for products and services that require supplier approval), Franchisee shall first send Franchisor sufficient information, specifications and samples for Franchisor to determine whether the service or product complies with its standards and specifications or whether the supplier meets its Approved Supplier criteria. Franchisee shall bear all expenses incurred by Franchisor in connection with determining whether it shall approve an item, service or supplier. Franchisor will decide within a reasonable time (usually thirty (30) days) after receiving the required information whether Franchisee may purchase or lease such items or services or from such supplier. Approval of a supplier may be conditioned on the supplier's ability to provide sufficient quantity of product; quality of products or services at competitive prices; production and delivery capability; and dependability and general reputation. Nothing in this Section shall be construed to require Franchisor to approve any particular supplier, or to require Franchisor to make available to prospective suppliers, standards and specifications that Franchisor deems confidential.

13.1.4 If Franchisor or an Affiliate is an Approved Supplier, Franchisee shall execute a standard form purchase or supply agreement for the items to be supplied by Franchisor or its Affiliate.

13.1.5 Franchisor has the right to designate certain products and services, not otherwise authorized for general use as part of the System, to be offered locally or regionally based upon such factors as Franchisor determines including, but not limited to, franchisee qualifications, test marketing and regional or local differences. Franchisor has the right to give its consent to one (1) or more franchisees to provide certain products or services not authorized for general use as part of the System. Such consent will be based upon the factors set forth in Section 10.3 and shall not create any rights in Franchisee to provide the same products or services.

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13.1.6 Franchisor has the right to retain volume rebates, markups and other benefits from suppliers or in connection with the furnishing of suppliers. Franchisee shall have no entitlement to or interest in any such benefits.

13.2 Appearance and Condition of the Franchised Business

Franchisee shall maintain the Approved Location, vehicle, equipment and signage in “like new” condition, and shall repair or replace equipment, vehicle, fixtures, supplies, inventory and signage as necessary to comply with the health and safety standards and specifications of Franchisor and Franchisee’s lessor and any applicable laws or regulations. The expense of such maintenance shall be borne by Franchisee and shall be in addition to any required System modifications, as described in Section 10.2.

13.3 Ownership and Management

The Franchised Business shall, at all times, be under the direct supervision of Franchisee who will appoint a Designated Manager will provide personal “on premises” supervision of the Franchised Business. The Designated Manager is required to devote sufficient efforts to the management of the day-to-day operation of the Franchised Business, which shall entail not less than thirty-five (35) hours per week, excluding vacation, sick leave and similar absences. Franchisee shall keep Franchisor informed, in writing, at all times of the identity of its Designated Manager. Franchisee and the Designated Manager must not engage in any business or other activities that will conflict with their obligations under this Agreement.

13.4 Days of Operation

Franchisee shall keep the Franchised Business open for business during normal business hours on the days specified in the Operations Manual.

13.5 Contributions and Donations

In order to protect the Marks, Franchisee must obtain Franchisor’s prior written consent before making any contributions or donations of items, services or funds to any individual or entity, or provide any type of other benefit to any charitable, religious, political, social, civic or other type of organization (or to any individual on behalf of any organization). Franchisor may withhold any such consent in its sole and absolute discretion.

13.6 Licenses and Permits

Franchisee shall secure and maintain in force all required licenses, permits and certificates necessary for the operation of the Franchised Business and shall operate the Franchised Business in full compliance with all applicable laws, ordinances and regulations. Franchisor makes no representation to Franchisee with regard to any legal requirements that Franchisee must satisfy or comply with in connection with the operation of the Franchised Business. Franchisee shall be solely responsible for investigating and complying with all such laws, ordinances and regulations with regard to the operation of the Franchised Business.

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13.7 Notification of Proceedings

Franchisee shall notify Franchisor in writing of the receipt of a notice of demand or threatened claim of liability of, or damages against or involving, Franchisee or the Franchised Business not more than five (5) days after Franchisee's receipt of such notice. Franchisee shall notify Franchisor in writing of the commencement of any action, suit or proceeding involving Franchisee or the Franchised Business, and of the issuance of any order, writ, injunction, judgment, award or decree which may affect the operation or financial condition of the Franchised Business not more than five (5) days after notice of such commencement or issuance. Franchisee shall deliver to Franchisor not more than five (5) days after Franchisee's receipt thereof, a copy of any inspection report, warning, certificate or rating by any governmental agency relating to any health or safety law, rule or regulation that reflects Franchisee's failure to meet and maintain the highest applicable rating or Franchisee's noncompliance or less than full compliance with any applicable law, rule or regulation.

13.8 Compliance with Good Business Practices

Franchisee acknowledges that the quality of customer service, and every detail of appearance and demeanor of Franchisee and its employees, is material to this Agreement and the relationship created and licenses granted hereby. Therefore, Franchisee shall endeavor to maintain high standards of quality and service in the operation of the Franchised Business. Franchisee shall at all times give prompt, courteous and efficient service to customers of the Franchised Business. The Franchised Business shall in all dealings with its customers, vendors and the general public, adhere to the highest standards of honesty, fair dealing and ethical conduct. If Franchisor deems that Franchisee did not fairly handle a customer complaint, Franchisor has the right to intervene and satisfy the customer. Franchisor will take disciplinary action by giving written notice for failing to comply with good business practices. Termination will occur after 3 notices have been issued within 12 months. Franchisee shall reimburse Franchisor for all costs incurred by Franchisor in servicing a customer of the Franchised Business pursuant to this Section.

13.9 Uniforms

Franchisee shall abide by any uniform or dress code requirements stated in the Operations Manual or otherwise. Uniforms, if required, must be purchased from an Approved Supplier.

13.10 E-Mail

Franchisee shall, at all times and at Franchisee's expense, maintain an e-mail address and account for communicating with Franchisor. Franchisee may change its e-mail address by giving written notice of such change of address to Franchisor.

13.11 Best Efforts

Franchisee shall use its best efforts to promote and increase the sales and recognition of services offered through the Franchised Business. Franchisee shall require

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all of Franchisee's employees, managers, officers, agents and representatives to make a good faith effort to enhance and improve the System and the sales of all products and services provided as part of the System.

14. Franchisor's Additional Operations Assistance.

14.1 General Advice and Guidance

Franchisor shall be available to render advice, discuss problems and offer general guidance to Franchisee by telephone, e-mail, facsimile, newsletters and other methods with respect to planning, opening and operating the Franchised Business. Franchisor shall not charge for this service, however, Franchisor retains the right to refuse or charge a fee for this service should Franchisee be deemed by Franchisor to be utilizing this service too frequently or in an unintended manner. Franchisor's advice or guidance to Franchisee relative to prices for products and services that, in Franchisor's judgment, constitutes good business practice is based upon the experience of Franchisor and its franchisees in operating Hot Fries businesses and an analysis of costs and prices charged for competitive products and services. Franchisee shall have the sole right to determine the prices to be charged by the Franchised Business; provided, however, that Franchisor shall have the sole right to determine the prices to be charged for products sold through the Hot Fries Internet site, including products sold to persons identified as customers of the Franchised Business.

14.2 Periodic Visits

Franchisor or Franchisor's representative shall make periodic visits, which may be announced or unannounced, to the Franchised Business for the purposes of consultation, assistance and guidance with respect to various aspects of the operation and management of the Franchised Business. Franchisor and Franchisor's representatives who visit the Franchised Business may prepare, for the benefit of both Franchisor and Franchisee, written reports detailing any problems or concerns discovered during any such visit and outlining any required or suggested changes or improvements in the operations of the Franchised Business. A copy of any such written report may be provided to Franchisee. Franchisee shall implement any required changes or improvements as required by Franchisor with time being of the essence.

15. Insurance.

15.1 Types and Amounts of Coverage

At its sole expense, Franchisee shall procure within sixty (60) days of the Effective Date, and maintain in full force and effect during the term of this Agreement, the types of insurance listed below. All policies (except any workers' compensation insurance) shall expressly name Franchisor as an additional insured or loss payee and all shall contain a waiver of all subrogation rights against Franchisor and its successors and assigns. In addition to any other insurance that may be required by applicable law, or by lender or lessor, Franchisee shall procure:

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“all risk” property insurance coverage on all assets including inventory, furniture, fixtures, equipment, supplies and other property used in the operation of the Franchised Business. Franchisee’s property insurance policy shall include coverage for fire, vandalism and malicious mischief and must have coverage limits of at least full replacement cost;

workers’ compensation insurance that complies with the statutory requirements of the state in which the Franchised Business is located and employer liability coverage with a minimum limit of ONE MILLION DOLLARS (\$1,000,000.00) or, if higher, the statutory minimum limit as required by state law;

comprehensive general liability insurance against claims for bodily and personal injury, death and property damage caused by, or occurring in conjunction with, the operation of the Franchised Business, or Franchisee’s conduct of business pursuant to this Agreement, with a minimum liability coverage of TWO MILLION DOLLARS (\$2,000,000.00) per occurrence or, if higher, the statutory minimum limit required by state law;

such insurance as necessary to provide coverage under the indemnity provisions set forth in Section 21.3.

15.2 Future Increases

Franchisor has the right to reasonably increase the minimum liability protection requirement annually and require different or additional insurance coverage(s) to reflect inflation, changes in standards of liability, future damage awards or other relevant changes in circumstances.

15.3 Carrier Standards

Such policies shall be written by an insurance company licensed in the state in which Franchisee operates and having at least an “A” Rating Classification as indicated in the latest issue of A.M. Best’s Key Rating Guide. Although A.M. Best groups “A” and “A-” in the same classification, Franchisor demands an “A” rating.

15.4 Evidence of Coverage.

Franchisee’s obligation to obtain and maintain the foregoing policies shall not be limited in any way by reason of any insurance which may be maintained by Franchisor, nor shall Franchisee’s performance of this obligation relieve it of liability under the indemnity provisions set forth in Section 21.3. Franchisee shall provide, annually, certificates of insurance showing compliance with the foregoing requirements. Such certificates shall state that said policy or policies shall not be canceled or altered without at least thirty (30) days’ prior written notice to Franchisor and shall reflect proof of payment of premiums.

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15.5 Failure to Maintain Coverage

Should Franchisee not procure and maintain insurance coverage as required by this Agreement, Franchisor has the right (but not the obligation) to immediately procure such insurance coverage and to charge the premiums to Franchisee, which charges, together with a reasonable fee for expenses incurred by Franchisor in connection with such procurement, shall be payable by Franchisee immediately upon notice.

16. Default and Termination.

16.1 Termination by Franchisee

If Franchisee is in full compliance with all of the terms of this Agreement and Franchisor materially breaches this Agreement and fails to commence reasonable efforts to cure such breach within thirty (30) days after receiving written notice identifying the claimed breach, Franchisee may elect to terminate this Agreement unless the breach cannot reasonably be cured within such thirty (30) days. If the breach cannot reasonably be cured in such thirty (30) days, Franchisee may elect to terminate this Agreement only if Franchisor does not promptly undertake and continue efforts to cure such material breach within a reasonable period of time and furnish Franchisee reasonable proof of such efforts.

16.2 Termination by Franchisor

16.2.1 Franchisor has the right to terminate this Agreement, without any opportunity to cure by Franchisee, if Franchisee:

fails to timely select an approved site for or establish, equip and commence operations of the Franchised Business pursuant to Section 5;

fails to have its Designated Manager satisfactorily complete any training program pursuant to Section 8;

made any material misrepresentation or omission in its application for the Franchise or otherwise to Franchisor in the course of entering into this Agreement;

is convicted of or pleads no contest to a felony or other crime or offense that is likely to adversely affect the reputation of Franchisor, Franchisee or the Franchised Business;

after notice to cure, fails to refrain from activities, behavior or conduct likely to adversely affect the reputation of Franchisor, Franchisee or the Franchised Business;

discloses, duplicates or otherwise uses in an unauthorized manner any portion of the Operations Manual, Trade Secrets or any other Confidential Information;

if required by Franchisor, fails to have any holder of a legal or beneficial interest in Franchisee (and any member of their immediate families or households), and any

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officer, director, executive, manager or member of the professional staff and all employees of Franchisee, execute a nondisclosure and non-competition agreement, in a form the same as or similar to the Nondisclosure and Non-Competition Agreement attached as Exhibit 2, upon execution of this Agreement or prior to each such person's affiliation with Franchisee or fails to provide Franchisor with copies of all nondisclosure and non-competition agreements signed pursuant to Section 7.4 if requested by Franchisor;

abandons, fails or refuses to actively operate the Franchised Business for five (5) or more consecutive days (unless the Franchised Business has not been operational for a purpose approved by Franchisor), or, if first approved by Franchisor, fails to promptly relocate the Franchised Business following the expiration or termination of the lease for the Approved Location, the destruction or condemnation of the Approved Location or any other event rendering the Approved Location unusable;

surrenders or transfers control of the operation of the Franchised Business without Franchisor's approval, makes or attempts to make an unauthorized direct or indirect assignment of the Franchise or an ownership interest in Franchisee, or fails or refuses to assign the Franchise or the interest in Franchisee of a deceased or incapacitated owner thereof as herein required;

fails to maintain the Franchised Business under the primary supervision of a Designated Manager during the one hundred eighty (180) days following the death or Incapacity of Franchisee or any holder of a legal or beneficial interest in Franchisee pursuant to Section 18.6;

submits to Franchisor on two (2) or more separate occasions at any time during the term of the Franchise any reports or other data, information or supporting records that understate any Royalty Fee or any other fees owed to Franchisor by more than three percent (3%) for any accounting period and Franchisee is unable to demonstrate that such understatements resulted from inadvertent error;

is adjudicated as bankrupt, becomes insolvent, commits any affirmative act of insolvency, or files any action or petition of insolvency; if a receiver of its property or any part thereof is appointed by a court; if it makes a general assignment for the benefit of its creditors; if a final judgment remains unsatisfied of record for thirty (30) days or longer (unless *supersedeas* bond is filed); if execution is levied against Franchisee's business or property; if a suit to foreclose any lien or mortgage against its Approved Location or equipment is instituted against Franchisee and not dismissed within thirty (30) days or is not in the process of being dismissed;

misuses or makes an unauthorized use of any of the Marks or commits any other act which can reasonably be expected to impair the goodwill associated with any of the Marks;

fails on two (2) or more separate occasions within any period of twelve (12) consecutive months to submit reports or other information or supporting records when

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due, to pay any Royalty Fee, Marketing Fund Contribution, amounts due for purchases from Franchisor and any Affiliate, or other payment when due to Franchisor or any Affiliate, whether or not such failures to comply are corrected after notice thereof is delivered to Franchisee;

violates on two (2) or more occasions any health or safety law, ordinance or regulation, or operates the Franchised Business in a manner that presents a health or safety hazard to its customers, employees or the public;

engages in any activity exclusively reserved to Franchisor;

fails to comply with any applicable law or regulation within ten (10) days after being given notice of noncompliance;

breaches this Agreement and/or fails to comply with mandatory specifications, customer service standards or operating procedures prescribed in the Operations Manual on two (2) or more separate occasions within any period of twelve (12) consecutive months, whether or not previous breaches or failures are cured; or

defaults under any other agreement between Franchisor (or any Affiliate) and Franchisee, such that Franchisor or its Affiliate, as the case may be, has the right to terminate such agreement or such agreement automatically terminates.

16.2.2 Except as otherwise provided in Section 16.2.1, Franchisor has the right to terminate this Agreement for the following breaches and defaults by giving notice of such termination stating the nature of the default; provided, however, that Franchisee may avoid termination by curing such default or failure (or by providing proof acceptable to Franchisor that Franchisee has made all reasonable efforts to cure such default or failure and shall continue to make all reasonable efforts to cure until a cure is effected if such default or failure cannot reasonably be cured before the effective date of the termination) within the specified period:

within five (5) days of receiving notice of Franchisee's failure to pay any amounts due to Franchisor;

within ten (10) days of receiving notice of Franchisee's failure to maintain insurance as specified in Section 15 of this Agreement; or

within thirty (30) days of receiving notice of any other default by Franchisee or upon Franchisee's failure to comply with any mandatory specification, standard or operating procedure prescribed in the Operations Manual or otherwise prescribed in writing.

16.3 Reinstatement and Extension

If provisions of this Agreement provide for periods of notice less than those required by applicable law, or provide for termination, cancellation or non-renewal other

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than in accordance with applicable law, Franchisor may reinstate or extend the term of this Agreement for the purpose of complying with applicable law by submitting a written notice to Franchisee without waiving any of Franchisor's rights under this Agreement.

16.4 Right of Franchisor to Discontinue Services to Franchisee

If Franchisee is in breach of any obligation under this Agreement, and Franchisor delivers to Franchisee a notice of termination pursuant to Section 16.2.2, Franchisor has the right to suspend its performance of any of its obligations under this Agreement including, without limitation, the sale or supply of any products or services for which Franchisor is an Approved Supplier to Franchisee, until such time as Franchisee corrects the breach.

16.5 Right of Franchisor to Operate Franchised Business

Following the delivery of a notice of termination pursuant to Section 16.2.2, if necessary in Franchisor's discretion, Franchisor shall have the right, but not the obligation, to assume the operation of the Franchised Business until such time as Franchisee corrects the breach. Franchisor may charge a management fee as stated in the Operations Manual from time to time, currently equal to TWO HUNDRED DOLLARS (\$200.00) per day, and Franchisor shall be entitled to reimbursement of any expenses Franchisor incurs that are not paid out of the operating cash flow of the Franchised Business. Should Franchisor elect to assume the operation of the Franchised Business on a temporary basis, Franchisor shall have no responsibility or liability for the obligations, debts or payments under the lease for the Approved Location (if any) or otherwise.

17. Rights and Duties Upon Expiration or Termination.

17.1 Actions to be Taken

Except as otherwise provided herein, upon termination or expiration, this Agreement and all rights granted hereunder to Franchisee shall terminate and Franchisee shall:

immediately cease to operate the Franchised Business and shall not thereafter, directly or indirectly, represent to the public or hold itself out as a present or former franchisee of Franchisor;

cease to use the Trade Secrets or other Confidential Information, the System and the Marks including, without limitation, all signs, slogans, symbols, logos, advertising materials, stationery, forms and any other items which display or are associated with the Marks;

upon demand by Franchisor, immediately assign (or, if an assignment is prohibited, sublease for the full remaining term, and on the same terms and conditions as Franchisee's lease) its interest in the lease then in effect for the Approved Location to Franchisor and Franchisee shall furnish Franchisor with evidence satisfactory to Franchisor of compliance with this obligation within thirty (30) days after termination or

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expiration of this Agreement, and Franchisor has the right to pay rent and other expenses directly to the party to whom such payment is ultimately due;

take such action as may be necessary to cancel or assign to Franchisor, at Franchisor's option, any assumed name or equivalent registration filed with state, city or county authorities which contains the name "Hot Fries " or any other Mark, and Franchisee shall furnish Franchisor with evidence satisfactory to Franchisor of compliance with this obligation within thirty (30) days after termination or expiration of this Agreement;

pay all sums owing to Franchisor and any Affiliate. In the event of termination for any default of Franchisee, such sums shall include, but not be limited to, all damages, costs and expenses, including reasonable attorneys' fees with respect to litigation, arbitration, appellate or bankruptcy proceedings, unpaid Royalty Fees, loss of future Royalty Fee payments incurred by Franchisee as a result of any early termination of this Agreement, and any other amounts due to Franchisor or any Affiliate;

pay to Franchisor all costs and expenses, including reasonable attorneys' fees, incurred by Franchisor subsequent to the termination or expiration of the Franchise in obtaining injunctive or other relief for the enforcement of any provisions of this Agreement;

immediately return to Franchisor the Operations Manual, Trade Secrets and all other Confidential Information including records, files, instructions, brochures, agreements, disclosure statements and any and all other materials provided by Franchisor to Franchisee relating to the operation of the Franchised Business (all of which are acknowledged to be Franchisor's property);

assign all telephone listings and numbers for the Franchised Business to Franchisor and shall notify the telephone company and all listing agencies of the termination or expiration of Franchisee's right to use any telephone numbers or facsimile numbers associated with the Marks in any regular, classified or other telephone directory listing and shall authorize transfer of same to or at the direction of Franchisor; and

comply with all other applicable provisions of this Agreement.

17.2 Post-Termination Covenant Not to Compete

17.2.1 Franchisee acknowledges that the restrictive covenants contained in this Section and in Section 7 are fair and reasonable and are justifiably required for purposes including, but not limited to, the following:

to protect the Trade Secrets and other Confidential Information of Franchisor;

to induce Franchisor to grant a Franchise to Franchisee; and

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to protect Franchisor against its costs in training Franchisee and its officers, directors, executives, professional staff and Designated Managers.

17.2.2 Except as otherwise approved in writing by Franchisor, neither Franchisee, nor any holder of a legal or beneficial interest in Franchisee, nor any officer, director, executive, manager or member of the professional staff of Franchisee, shall, for a period of two (2) years after the expiration or termination of this Agreement, regardless of the cause of termination, either directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity:

own an interest in, manage, operate or provide the same products to customers (Selection of seasoned fries, chicken wings, nuggets, tenders and “build your own” loaded baked potato. Additionally, any other items Hot Fries had previously on their menu) through a Competitive Business located or operating (a) within a twenty-five (25) mile radius of the Approved Location or within the Territory (whichever is greater), or (b) within a twenty-five (25) mile radius of the location of any other Franchised Business in existence at the time of termination or expiration; or

solicit or otherwise attempt to induce or influence any customer, employee or other business associate of Franchisor to terminate or modify his, her or its business relationship with Franchisor or to compete against Franchisor.

17.2.3 In furtherance of this Section, Franchisor has the right to require certain individuals to execute standard form nondisclosure or non-competition agreements in a form the same as or similar to the Nondisclosure and Non-Competition Agreement attached as Exhibit 2.

17.2.4 If for whatever reason, either the above area or time frame covered by the Nondisclosure and Non-Competition Agreement is deemed unreasonable by a court of law, then and only in such an event shall such area and/or its time frame be reduced accordingly by the court. The rulings by the court concerning the area or time frame or any other judicial interpretation shall not affect the rest and remainder of such restrictive covenants.

17.3 Unfair Competition

If Franchisee operates any other business, Franchisee shall not use any reproduction, counterfeit, copy or colorable imitation of the Marks, either in connection with such other business or the promotion thereof, that is likely to cause confusion, mistake or deception, or that is likely to dilute Franchisor’s rights in the Marks. Franchisee shall not utilize any designation of origin, description or representation that suggests or represents an association or connection with Franchisor. This Section is not intended as an approval of Franchisee’s right to operate other businesses and in no way is it intended to contradict Sections 7, 17.1 or 17.2. If Franchisor elects not to receive an assignment or sublease of the Approved Location, Franchisee shall make such modifications or alterations to the Approved Location (including changing telephone and facsimile numbers) immediately upon termination or expiration of this Agreement as may

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be necessary to prevent any association between Franchisor or the System and any business subsequently operated by Franchisee or others at the Approved Location. Franchisee shall make such specific additional changes to the Approved Location as Franchisor may reasonably request for that purpose including, without limitation, removal of all physical and structural features identifying or distinctive to the System. If Franchisee fails or refuses to comply with the requirements of this Section, Franchisor has the right to enter upon the Approved Location for the purpose of making or causing to be made such changes as may be required, at the expense of Franchisee, which expense Franchisee shall pay upon demand.

17.4 Franchisor's Option to Purchase Certain Business Assets

Franchisor has the right (but not the obligation), for a period of thirty (30) days after termination or expiration of this Agreement, to purchase any or all assets of the Franchised Business including leasehold improvements, equipment, supplies and other inventory. The purchase price shall be equal to the assets' fair market value, as determined by an independent appraiser. If Franchisor elects to exercise this option to purchase, it has the right to set off all amounts due from Franchisee under this Agreement, if any, against the purchase price.

17.5 Survival of Certain Provisions

All obligations of Franchisor and Franchisee, which expressly or by their nature survive the expiration or termination of this Agreement, shall continue in full force and effect subsequent to and notwithstanding their expiration or termination and until satisfied or by their nature expire.

18. Transferability of Interest.

18.1 Transfer by Franchisor

This Agreement and all rights and duties hereunder are fully transferable in whole or in part by Franchisor and such rights will inure to the benefit of any person or entity to whom transferred; provided, however, that with respect to any assignment resulting in the subsequent performance by the assignee of the functions of Franchisor, the assignee shall assume the obligations of Franchisor hereunder and Franchisor shall thereafter have no liability for the performance of any obligations contained in this Agreement.

18.2 Transfer by Franchisee to a Third Party

The rights and duties of Franchisee as set forth in this Agreement, and the Franchise herein granted, are personal to Franchisee (or its owners), and Franchisor has entered into this Agreement in reliance upon Franchisee's personal or collective skill and financial ability. Accordingly, neither Franchisee nor any holder of a legal or beneficial interest in Franchisee may sell, assign, convey, give away, pledge, mortgage, sublicense or otherwise transfer, whether by operation of law or otherwise, any interest in this Agreement, the Franchise granted hereby, the Approved Location used in operating the Franchised Business, its assets or any part or all of the ownership interest in Franchisee

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without the prior written approval of Franchisor. Any purported transfer without such approval shall be voidable and shall constitute a material breach of this Agreement. If Franchisee is in compliance with this Agreement, Franchisor's consent to such transfer shall be conditioned upon the satisfaction of the following requirements:

Franchisee has complied with the requirements set forth in Section 19;

all obligations owed to Franchisor, and all other outstanding obligations relating to the Franchised Business, are fully paid and satisfied;

Franchisee (and any transferring owners, if Franchisee is a business entity) has executed a general release, in a form the same as or similar to the General Release attached as Exhibit 1, of any and all claims against Franchisor, including its officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities), including, without limitation, claims arising under federal, state or local laws, rules or ordinances, and any other matters incident to the termination of this Agreement or to the transfer of Franchisee's interest herein or to the transfer of Franchisee's ownership of all or any part of the Franchise; provided, however, that if a general release is prohibited, Franchisee shall give the maximum release allowed by law;

the prospective transferee has satisfied Franchisor that it meets Franchisor's management, business and financial standards, and otherwise possesses the character and capabilities, including business reputation and credit rating, as Franchisor may require to demonstrate ability to conduct the Franchised Business;

the transferee and, if Franchisor requires, all persons owning any interest in the transferee, have executed the then-current franchise agreement for new franchisees, which may be substantially different from this Agreement, including different Royalty Fee and Marketing Fund Contribution rates and other material provisions, and the franchise agreement then executed shall be for the term specified in such agreement;

the transferee has executed a general release, in a form the same as or similar to the General Release attached as Exhibit 1, of any and all claims against Franchisor and its officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities), with respect to any representations regarding the Franchise or the business conducted pursuant thereto or any other matter that may have been made to the transferee by Franchisee;

Franchisee has provided Franchisor with a complete copy of all contracts and agreements and related documentation between Franchisee and the prospective transferee relating to the intended sale or transfer of the Franchise;

Franchisee, or the transferee, has paid to Franchisor a transfer fee in the amount of TEN THOUSAND DOLLARS (\$10,000.00);

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the transferee, or all holders of a legal or beneficial interest in the transferee, has agreed to be personally bound jointly and severally by all provisions of this Agreement for the remainder of its term by executing a personal guaranty in such form as prepared by Franchisor;

Franchisee has agreed to be bound to the obligations of the new franchise agreement and to guarantee the full performance thereof by the transferee, if required by Franchisor;

the transferee has obtained all necessary consents and approvals by third parties (such as the lessor of the Approved Location) and all applicable federal, state and local laws, rules, ordinances and requirements applicable to the transfer have been complied with or satisfied;

Franchisee has, and if Franchisee is an entity, all of the holders of a legal and beneficial interest in Franchisee have executed and delivered to Franchisor a nondisclosure and non-competition agreement in a form satisfactory to Franchisor and in substance the same as the nondisclosure and non-competition covenants contained in Sections 7 and 17;

the transferee agrees that its Designated Manager shall complete, to Franchisor's satisfaction, a training program in substance similar to the initial training described in Section 8.1 prior to assuming the management of the day-to-day operation of the Franchised Business; and

the transferee has obtained all necessary types of insurance as described in Section 15.1.

18.3 Transfer to a Controlled Entity

18.3.1 If Franchisee wishes to transfer this Agreement or any interest herein to a corporation, limited liability company or other legal entity which shall be entirely owned by Franchisee ("Controlled Entity"), which Controlled Entity is being formed for the financial planning, tax or other convenience of Franchisee, Franchisor's consent to such transfer shall be conditioned upon the satisfaction of the following requirements:

the Controlled Entity is newly organized and its charter provides that its activities are confined exclusively to the operation of the Franchised Business;

Franchisee or all holders of a legal or beneficial interest in Franchisee own all of the equity and voting power of the outstanding stock or other capital interest in the Controlled Entity;

all obligations of Franchisee to Franchisor or any Affiliate are fully paid and satisfied; provided, however, that neither Franchisee nor the Controlled Entity shall be required to pay a transfer fee as required pursuant to Section 18.2.8;

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the Controlled Entity has entered into a written agreement with Franchisor expressly assuming the obligations of this Agreement and all other agreements relating to the operation of the Franchised Business. If the consent of any other party to any such other agreement is required, Franchisee has obtained such written consent and provided the same to Franchisor prior to consent by Franchisor;

all holders of a legal or beneficial interest in the Controlled Entity have entered into an agreement with Franchisor jointly and severally guaranteeing the full payment of the Controlled Entity's obligations to Franchisor and the performance by the Controlled Entity of all the obligations of this Agreement;

each stock certificate or other ownership interest certificate of the Controlled Entity has conspicuously endorsed upon the face thereof a statement in a form satisfactory to Franchisor that it is held subject to, and that further assignment or transfer thereof is subject to, all restrictions imposed upon transfers and assignments by this Agreement; and

copies of the Controlled Entity's articles of incorporation or organization, bylaws, operating agreement, federal tax identification number and other governing regulations or documents, including resolutions of the board of directors authorizing entry into this Agreement, have been promptly furnished to Franchisor. Any amendment to any such documents shall also be furnished to Franchisor immediately upon adoption.

18.3.2 The term of the transferred franchise shall be the unexpired term of this Agreement, including all renewal rights, subject to any and all conditions applicable to such renewal rights.

18.3.3 Franchisor's consent to a transfer of any interest in this Agreement, or of any ownership interest in the Franchised Business, shall not constitute a waiver of any claims Franchisor may have against the transferor or the transferee, nor shall it be deemed a waiver of Franchisor's right to demand compliance with the terms of this Agreement.

18.4 Franchisor's Disclosure to Transferee

Franchisor has the right, without liability of any kind or nature whatsoever to Franchisee, to make available for inspection by any intended transferee of Franchisee all or any part of Franchisor's records relating to this Agreement, the Franchised Business or to the history of the relationship of the parties hereto. Franchisee hereby specifically consents to such disclosure by Franchisor and shall release and hold Franchisor harmless from and against any claim, loss or injury resulting from an inspection of Franchisor's records relating to the Franchised Business by an intended transferee identified by Franchisee.

18.5 For-Sale Advertising

Franchisee shall not, without prior written consent of Franchisor, place in, on or upon the location of the Franchised Business, or in any communication media, any form

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of advertising relating to the sale of the Franchised Business or the rights granted hereunder.

18.6 Transfer by Death or Incapacity

18.6.1 Upon the death or Incapacity of Franchisee (if Franchisee is an individual) or any holder of a legal or beneficial interest in Franchisee (if Franchisee is a business entity), the appropriate representative of such person (whether administrator, personal representative or trustee) shall, within a reasonable time not exceeding one hundred eighty (180) days following such event, transfer such individual's interest in the Franchised Business or in Franchisee to a third party approved by Franchisor. Such transfers, including transfers by will or inheritance, shall be subject to the conditions for assignments and transfers contained in this Agreement, unless prohibited by the laws of the state wherein Franchisee resided, with such choice of law provision being applicable only for this Section 18.6. During such one hundred eighty (180) day period, the Franchised Business must remain at all times under the primary management of a Designated Manager who otherwise meets Franchisor's management qualifications.

18.6.1 Following such a death or Incapacity of such person as described in this Section, if necessary in Franchisor's discretion, Franchisor shall have the right, but not the obligation, to assume operation of the Franchised Business until the deceased or incapacitated owner's interest is transferred to a third party approved by Franchisor. Franchisor may charge a management fee as stated in the Operations Manual from time to time, currently equal to TWO HUNDRED DOLLARS (\$200.00) per day, and Franchisor shall be entitled to reimbursement of any expenses Franchisor incurs that are not paid out of the operating cash flow of the Franchised Business.

19. Right of First Refusal.

19.1 Submission of Offer

If Franchisee, or any of its owners, proposes to sell or otherwise transfer (including a transfer by death or Incapacity pursuant to Section 18.6) the Franchised Business (or any of its assets outside of the normal course of business), any ownership interest in Franchisee or any ownership interest in the Franchise granted hereunder, Franchisee shall obtain and deliver a *bona fide*, executed written offer or proposal to purchase, along with all pertinent documents including any contract or due diligence materials, to Franchisor, except with regards to a sale or transfer to a family member. The offer must apply only to an approved sale of the assets or interests listed above and may not include any other property or rights of Franchisee or any of its owners.

19.2 Franchisor's Right to Purchase

Franchisor shall, for thirty (30) days from the date of delivery of all such documents, have the right, exercisable by written notice to Franchisee, to purchase the offered assets or interest for the price and on the same terms and conditions contained in such offer communicated to Franchisee. Franchisor has the right to substitute cash for the fair market value of any form of payment proposed in such offer. Franchisor's credit shall

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be deemed at least equal to the credit of any proposed buyer. After providing notice to Franchisee of Franchisor's intent to exercise this right of first refusal, Franchisor shall have up to sixty (60) days to close the purchase. Franchisor shall be entitled to receive from Franchisee all customary representations and warranties given by Franchisee as the seller of the assets or such ownership interest or, at Franchisor's election, such representations and warranties contained in the proposal.

19.3 Non-Exercise of Right of First Refusal

If Franchisor does not exercise its right of first refusal within thirty (30) days from the date of delivery of all such documents, the offer or proposal may be accepted by Franchisee or any of its owners, subject to Franchisor's prior written approval as required by Section 18.2. Should the sale fail to close within one hundred eighty (180) days after the offer is delivered to Franchisor, Franchisor's right of first refusal shall renew and be implemented in accordance with this Section.

19.4 Sales or Transfers to Family Excepted

If Franchisee, or any of its owners, proposes to sell or otherwise transfer the Franchised Business (or any of its assets outside of the normal course of business), any ownership interest in Franchisee or any ownership interest in the Franchise granted hereunder to a member of Franchisee's (or its owners') family, then the terms and conditions of this Section 19 shall be inapplicable. Nothing in this Section 19.4 shall be construed to relieve Franchisee from full compliance with the terms and conditions of Section 18.2 prior to a sale or transfer to family pursuant to this Section.

20. Beneficial Owners of Franchisee.

Franchisee represents, and Franchisor enters into this Agreement in reliance upon such representation, that the individuals identified in Exhibit 4 are the sole holders of a legal or beneficial interest (in the stated percentages) of Franchisee.

21. Relationship and Indemnification.

21.1 Relationship

This Agreement is purely a contractual relationship between the parties and does not appoint or make Franchisee an agent, legal representative, joint venturer, partner, employee, servant or independent contractor of Franchisor for any purpose whatsoever. Franchisee may not represent or imply to third parties that Franchisee is an agent of Franchisor, and Franchisee is in no way authorized to make any contract, agreement, warranty or representation on behalf of Franchisor, or to create any obligation, express or implied, on Franchisor's behalf. During the term of this Agreement, and any extension or renewal hereof, Franchisee shall hold itself out to the public only as a franchisee and an owner of the Franchised Business operating the Franchised Business pursuant to a franchise from Franchisor. Franchisee shall take such affirmative action as may be necessary to do so including, without limitation, exhibiting a notice of that fact in a conspicuous place on the Approved Location and on all forms, stationery or other written

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materials, the content of which Franchisor has the right to specify. Under no circumstances shall Franchisor be liable for any act, omission, contract, debt, nor any other obligation of Franchisee. Franchisor shall in no way be responsible for any injuries to persons or property resulting from the operation of the Franchised Business. Any third party contractors and vendors retained by Franchisee to convert or construct the premises are independent contractors of Franchisee alone.

21.2 Standard of Care

This Agreement does not establish a fiduciary relationship between the parties. Unless otherwise specifically provided in this Agreement with respect to certain issues, whenever this Agreement requires Franchisee to obtain Franchisor's written consent or permits Franchisee to take any action or refrain from taking any action, Franchisor is free to act in its own self-interest without any obligation to act reasonably, to consider the impact on Franchisee or to act subject to any other standard of care limiting Franchisor's right, except as may be provided by statute or regulation.

21.3 Indemnification

To the fullest extent permitted by law, Franchisee shall, at Franchisee's sole cost and expense, hold harmless and indemnify Franchisor, any Affiliate, all holders of a legal or beneficial interest in Franchisor and all officers, directors, executives, managers, members, partners, owners, employees, agents, successors and assigns (collectively "Franchisor Indemnitees") from and against all losses, damages, fines, costs, expenses or liability (including reasonable attorneys' fees and all other costs of litigation) incurred in connection with any action, suit, demand, claim, investigation or proceeding, or any settlement thereof, which arises from or is based upon (a) any personal injury, bodily injury or property damage whatsoever occurring in or at the location of the Franchised Business; (b) any bodily injury to an employee of Franchisee arising out of and in the course of employment of the employee; (c) Franchisee's ownership or operation of the Franchised Business; (d) Franchisee's breach of the lease for the Approved Location; (e) Franchisee's violation, breach or asserted violation or breach of any federal, state or local law, regulation or rule; (f) Franchisee's breach of any representation, warranty, covenant, or provision of this Agreement or any other agreement between Franchisee and Franchisor (or an Affiliate); (g) Franchisee's defamation of Franchisor or the System; (h) Franchisee's acts, errors or omissions committed or incurred in connection with the Franchised Business and or place of operations, including any negligent or intentional acts; or (i) Franchisee's infringement, violation or alleged infringement or violation of any Mark, patent or copyright or any misuse of the Trade Secrets or other Confidential Information. The obligations of this Section shall expressly survive the termination of this Agreement.

21.4 Right to Retain Counsel

Franchisee shall give Franchisor immediate notice of any such action, suit, demand, claim, investigation or proceeding that may give rise to a claim for indemnification by a Franchisor Indemnitee. Franchisor has the right to retain counsel of its own choosing in connection with any such action, suit, demand, claim, investigation

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or proceeding. In order to protect persons, property, Franchisor's reputation or the goodwill of others, Franchisor has the right to, at any time without notice, take such remedial or corrective actions as it deems expedient with respect to any action, suit, demand, claim, investigation or proceeding if, in Franchisor's sole judgment, there are grounds to believe any of the acts or circumstances listed above have occurred. If Franchisor's exercise of its rights under this Section to take corrective or remedial action, causes any of Franchisee's insurers to refuse to pay a third party claim, all cause of action and legal remedies Franchisee might have against such insurer shall automatically be assigned to Franchisor without the need for any further action on either party's part. Under no circumstances shall Franchisor be required or obligated to seek coverage from third parties or otherwise mitigate losses in order to maintain a claim against Franchisee. The failure to pursue such remedy or mitigate such loss shall in no way reduce the amounts recoverable by Franchisor from Franchisee.

22. General Conditions and Provisions.

22.1 No Waiver

No failure of Franchisor to exercise any power reserved to it hereunder, or to insist upon strict compliance by Franchisee with any obligation or condition hereunder, and no custom nor practice of the parties in variance with the terms hereof, shall constitute a waiver of Franchisor's right to demand exact compliance with the terms of this Agreement. Waiver by Franchisor of any particular default by Franchisee shall not be binding unless in writing and executed by Franchisor and shall not affect nor impair Franchisor's right with respect to any subsequent default of the same or of a different nature. Subsequent acceptance by Franchisor of any payment(s) due shall not be deemed to be a waiver by Franchisor of any preceding breach by Franchisee of any terms, covenants or conditions of this Agreement.

22.2 Injunctive Relief

As any breach by Franchisee of any of the restrictions contained in Sections 6, 7 and 17 would result in irreparable injury to Franchisor, and as the damages arising out of any such breach would be difficult to ascertain, in addition to all other remedies provided by law or in equity, Franchisor shall be entitled to seek injunctive relief (whether a restraining order, a preliminary injunction or a permanent injunction) against any such breach, whether actual or contemplated, without the necessity of posting security or bond and Franchisee shall be responsible for Franchisor's reasonable attorneys' fees incurred in pursuing the same. Franchisor's right to seek injunctive relief will not affect the parties' waiver of jury trial and covenant to arbitrate all disputes in accordance with Section 23.6. Franchisor's rights herein shall include pursuing injunctive relief through arbitration or in a state or federal court.

22.3 Notices

All notices required or permitted under this Agreement shall be in writing and shall be deemed received: (a) at the time delivered by hand to the recipient party (or to an officer, director or partner of the recipient party); (b) on the next business day after

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transmission by facsimile or other reasonably reliable electronic communication system; (c) two (2) business days after being sent via guaranteed overnight delivery by a commercial courier service; or (d) five (5) business days after being sent by Registered Mail, return receipt requested. Either party may change its address by a written notice sent in accordance with this Section. All notices, payments and reports required by this Agreement shall be sent to Franchisor at the following address:

Hot Fries Franchising, LLC
Attn: Nishant Patel
5825 Lincoln Ave. Ste. D, #260
Buena Park, CA 90620

22.4 Cost of Enforcement or Defense

If Franchisor or Franchisee is required to enforce this Agreement in a judicial or arbitration proceeding, the prevailing party shall be entitled to reimbursement of its costs, including reasonable accounting and attorneys' fees, in connection with such proceeding.

22.5 Unlimited Guaranty and Assumption of Obligations

All holders of a legal or beneficial interest in Franchisee of five percent (5%) or greater shall be required to execute, as of the date of this Agreement, the Unlimited Guaranty and Assumption of Obligations attached as Exhibit 3, through which such holders agree to assume and discharge all of Franchisee's obligations under this Agreement and to be personally liable hereunder for all of the same.

22.6 Approvals

Whenever this Agreement requires the prior approval or consent of Franchisor, Franchisee shall make a timely written request to Franchisor for such approval and, except as otherwise provided herein, any approval or consent granted shall be effective only if in writing. Franchisor makes no warranties or guarantees upon which Franchisee may rely, and assumes no liability or obligation to Franchisee or any third party to which it would not otherwise be subject, by providing any waiver, approval, advice, consent or services to Franchisee in connection with this Agreement, or by reason of any neglect, delay or denial of any request for approval.

22.7 Entire Agreement

This Agreement and all exhibits to this Agreement constitute the entire agreement between the parties and supersede any and all prior negotiations, understandings, representations, and agreements. Nothing in this or in any related agreement, however, is intended to disclaim the representations Franchisor made in the franchise disclosure document that Franchisor furnished to you.

22.8 Severability and Modification

22.8.1 Except as noted below, each paragraph, part, term and provision of this Agreement shall be considered severable. If any paragraph, part, term or provision herein

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is ruled to be unenforceable, unreasonable or invalid, such ruling shall not impair the operation of or affect the remaining portions, paragraphs, parts, terms and provisions of this Agreement, and the latter shall continue to be given full force and effect and bind the parties; and such unenforceable, unreasonable or invalid paragraphs, parts, terms or provisions shall be deemed not part of this Agreement. If Franchisor determines that a finding of invalidity adversely affects the basic consideration of this Agreement, Franchisor has the right to, at its option, terminate this Agreement.

22.8.2 Notwithstanding the above, each of the covenants contained in Sections 7 and 17 shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of any such covenant is held to be unenforceable, unreasonable or invalid, then it shall be amended to provide for limitations on disclosure of Trade Secrets or other Confidential Information or on competition to the maximum extent provided or permitted by law.

22.9 Construction

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

22.10 Force Majeure

Whenever a period of time is provided in this Agreement for either party to perform any act, except pay monies, neither party shall be liable nor responsible for any delays due to strikes, lockouts, casualties, acts of God, war, terrorism, governmental regulation or control or other causes beyond the reasonable control of the parties, and the time period for the performance of such act shall be extended for the amount of time of the delay. This clause shall not result in an extension of the term of this Agreement.

22.11 Timing

Time is of the essence. Except as set forth in Section 22.10, failure to perform any act within the time required or permitted by this Agreement shall be a material breach.

22.12 Withholding Payments

Franchisee shall not, for any reason, withhold payment of any Royalty Fees or other amounts due to Franchisor or to an Affiliate. Franchisee shall not withhold or offset any amounts, damages or other monies allegedly due to Franchisee against any amounts due to Franchisor. No endorsement or statement on any payment for less than the full amount due to Franchisor will be construed as an acknowledgment of payment in full, or an accord and satisfaction, and Franchisor has the right to accept and cash any such payment without prejudice to Franchisor's right to recover the full amount due, or pursue any other remedy provided in this Agreement or by law. Franchisor has the right to apply any payments made by Franchisee against any of Franchisee's past due indebtedness as Franchisor deems appropriate. Franchisor shall set off sums Franchisor owes to Franchisee against any unpaid debts owed by Franchisee to Franchisor.

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22.13 Further Assurances

Each party to this Agreement will execute and deliver such further instruments, contracts, forms or other documents, and will perform such further acts, as may be necessary or desirable to perform or complete any term, covenant or obligation contained in this Agreement.

22.14 Third-Party Beneficiaries

Anything to the contrary notwithstanding, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity other than Franchisor or Franchisee, and their respective successors and assigns as may be contemplated by this Agreement, any rights or remedies under this Agreement.

22.15 Multiple Originals

Both parties will execute multiple copies of this Agreement, and each executed copy will be deemed an original.

23. Dispute Resolution.

23.1 Choice of Law

Except to the extent this Agreement or any particular dispute is governed by the U.S. Trademark Act of 1946 or other federal law, this Agreement shall be governed by and construed in accordance with the laws of the State of California (without reference to its conflict of laws principles). The parties hereby submit all such disputes not governed by the U.S. Trademark Act of 1946 (or breaches of the Non-Compete Provisions hereof set forth in Exhibit 2 hereof) to binding arbitration as their exclusive forum and remedy with the California Arbitration Act to exclusively govern the procedure for all such arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency.

23.2 Consent to Jurisdiction

Any action brought by either party except those claims required to be submitted to arbitration, shall only be brought in the appropriate state or Federal courts located in or serving Santa Ana, California. The parties waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision. Claims for injunctive relief may be brought by Franchisor where Franchisee is located. This exclusive choice of jurisdiction and venue provision shall not restrict the ability of the parties to confirm or enforce judgments or arbitration awards in any appropriate jurisdiction.

23.3 Cumulative Rights and 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 in addition to every other right or remedy. Nothing contained herein shall bar Franchisor's right to obtain

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injunctive relief against threatened conduct that may cause it loss or damages, including obtaining restraining orders and preliminary and permanent injunctions.

23.4 Limitation of Damages

Franchisee and Franchisor each waive, to the fullest extent permitted by law, any right or claim for any punitive or exemplary damages against the other and agree that if there is a dispute with the other, each will be limited to the recovery of actual damages sustained by it including reasonable accounting and legal fees as provided in Section 22.4. Franchisee waives and disclaims any right to consequential damages in any action or claim against Franchisor concerning this Agreement or any related agreement. In any claim or action brought by Franchisee against Franchisor concerning this Agreement, Franchisee's contract damages shall not exceed and shall be limited to refund of Franchisee's Franchise Fee and Royalty Fees.

23.5 Waiver of Jury Trial

Franchise and Franchisor Each irrevocably waive trial by jury in any action, whether at law or equity, brought by either of them.

23.6 Arbitration

23.6.1 This Agreement evidences a transaction involving commerce and, therefore, the Federal Arbitration Act, Title 9 of the United States Code is applicable to the subject matter contained herein. Except for controversies or claims relating to intellectual property rights, including, but not limited to, Franchisor's Marks, copyrights or the unauthorized use or disclosure of Franchisor's Confidential Information, covenants against competition and other claims for injunctive relief, all disputes arising out of or relating to this Agreement or to any other agreements between the parties, or with regard to interpretation, formation or breach of this or any other agreement between the parties (except the Non-Compete Agreement attached hereto as Exhibit 2), shall be settled by binding arbitration conducted in Santa Ana, California, in accordance with the Revised Uniform Arbitration Act (G.S. 1-569.1). The proceedings will be held by a single arbitrator agreed upon by the parties or otherwise appointed by the Chief Resident Superior Court Judge for the Judicial District sitting in Santa Ana, California. The decision of the arbitrator will be final and binding upon the parties. Judgment upon the award rendered by the arbitrator may be entered in any court having personal and subject matter jurisdiction.

23.6.2 Franchisee acknowledges that it has read the terms of this binding arbitration provision and affirms that this provision is entered into willingly and voluntarily and without any fraud, duress or undue influence on the part of Franchisor or any of Franchisor's agents or employees.

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24. Acknowledgements.

24.1 Receipt of this Agreement and the Franchise Disclosure Document

Franchisee represents and acknowledges that it has received, read and understands this Agreement and Franchisor's Franchise Disclosure Document; and that Franchisor has accorded Franchisee ample time and opportunity to consult with advisors of its own choosing about the potential benefits and risks of entering into this Agreement. Franchisee represents and acknowledges that it has received, at least fourteen (14) calendar-days prior to the date on which this Agreement was executed, the Disclosure Document required by the Trade Regulation Rule of the Federal Trade Commission entitled Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures.

24.2 Consultation by Franchisee

Franchisee represents that it has been urged to consult with its own advisors with respect to the legal, financial and other aspects of this Agreement, the business franchised hereby and the prospects for that business. Franchisee represents that it has either consulted with such advisors or has deliberately declined to do so.

24.3 True and Accurate Information

Franchisee represents that all information set forth in any and all applications, financial statements and submissions to Franchisor is true, complete and accurate in all respects, and Franchisee acknowledges that Franchisor is relying upon the truthfulness, completeness and accuracy of such information.

24.4 Risk

Franchisee represents that it has conducted an independent investigation of the business contemplated by this Agreement and acknowledges that, like any other business, an investment in a Franchised Business involves business risks and that the success of the venture is dependent, among other factors, upon the business abilities and efforts of Franchisee. Franchisor makes no representations or warranties, express or implied, in this Agreement or otherwise, as to the potential success of the business venture contemplated hereby.

24.5 No Guarantee of Success

Franchisee represents and acknowledges that it has not received or relied on any guarantee, express or implied, as to the revenues, profits or likelihood of success of the Franchised Business. Franchisee represents and acknowledges that there have been no representations by Franchisor's officers, directors, employees or agents that are not contained in, or are inconsistent with, the statements made in the Franchise Disclosure Document or this Agreement.

EXHIBIT C TO THE DISCLOSURE DOCUMENT

FRANCHISE AGREEMENT

24.6 No Violation of Other Agreements

Franchisee represents that its execution of this Agreement will not violate any other agreement or commitment to which Franchisee or any holder of a legal or beneficial interest in Franchisee is a party.

24.7 Severability

If a provision of this Agreement is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect: the validity or enforceability in that jurisdiction of any other provision of this Agreement; or the validity or enforceability in other jurisdictions of that or any other provision of this Agreement

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby have duly executed this Agreement.

Hot Fries Franchising, LLC

[Franchisee]

By:

By:

Name Printed:

Name Printed

Title:

Title:

EXHIBIT 1 TO THE FRANCHISE AGREEMENT

GENERAL RELEASE

This General Release is made by _____, ("RELEASOR")
a/an _____ with a principal address of _____
_____, in consideration of:

_____ the execution by Hot Fries Franchising, LLC, A California Limited Liability Company ("RELEASEE"), of a successor Franchise Agreement or other renewal documents renewing the franchise (the "Franchise") granted to RELEASOR by RELEASEE pursuant to that certain Franchise Agreement (the "Franchise Agreement") between RELEASOR and RELEASEE; or

_____ RELEASEE'S consent to RELEASOR'S assignment of its rights and duties under the Franchise Agreement; or

_____ RELEASEE'S consent to RELEASOR'S assumption of rights and duties under the Franchise Agreement; or

_____ RELEASEE'S refund of fifty percent (50%) of the Franchise Fee RELEASOR paid to RELEASEE,

and other good and valuable consideration, the adequacy of which is hereby acknowledged.

Accordingly RELEASOR hereby releases and discharges RELEASEE, RELEASEE'S officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities), and RELEASEE'S successors and assigns, from any and all causes of action, suits, debts, damages, judgments, executions, claims and demands whatsoever, in law or in equity, that RELEASOR and RELEASOR'S heirs, executors, administrators, successors and assigns had, now have or may have, upon or by reason of any matter, cause or thing whatsoever from the beginning of the world to the date of this RELEASE arising out of or related to the Franchise or the Franchise Agreement, including, without limitation, claims arising under federal, state and local laws, rules and ordinances.

Any action brought by either party regarding this Release, shall only be brought in the appropriate state or federal court located in or serving Santa Ana, California. The parties waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision.

This General Release shall not be amended or modified unless such amendment or modification is in writing and is signed by RELEASOR and RELEASEE.

EXHIBIT 1 TO THE FRANCHISE AGREEMENT

IN WITNESS WHEREOF, RELEASOR has executed this General Release as of the date first above written.

RELEASOR: _____
(type/print name)

By: _____

Name Printed: _____

Title: _____

Date: _____

ACKNOWLEDGMENT

State of _____)

) ss

County of _____)

On this ____ day of _____, 20____ before me personally came _____, known to me to be the same person whose name is signed to the foregoing General Release, and acknowledged the execution thereof for the uses and purposes therein set forth, and who did swear and say that he/she is the _____ (title) of _____ (company name), and he/she has the authority to execute said General Release.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

Notary Public
My Commission expires:

(NOTARIAL SEAL)

EXHIBIT 2 TO THE FRANCHISE AGREEMENT

NONDISCLOSURE AND NON-COMPETITION AGREEMENT

This "Agreement" is by and between _____,
("Franchisee") and _____
("Individual").

WITNESSETH:

WHEREAS, Franchisee is a party to that certain Franchise Agreement dated _____, 20__ ("Franchise Agreement") by and between Franchisee and Hot Fries Franchising, LLC ("Company"); and

WHEREAS, Franchisee desires Individual to have access to and review certain Trade Secrets and other Confidential Information, which are more particularly described below; and

WHEREAS, Franchisee is required by the Franchise Agreement to have Individual execute this Agreement prior to providing Individual access to said Trade Secrets and other Confidential Information; and

WHEREAS, Individual understands the necessity of not disclosing any such information to any other party or using such information to compete against Company, Franchisee or any other franchisee of Company in any business (i) that offers or provides (or grants franchises or licenses to others to operate a business that offers or provides) products the same as or similar to those provided by Franchisee or (ii) in which Trade Secrets and other Confidential Information (as defined below) could be used to the disadvantage of Franchisee, or Company, any affiliate of Company or Company's other franchisees (hereinafter, "Competitive Business"); provided, however, that the term "Competitive Business" shall not apply to any business operated by Franchisee under a Franchise Agreement with Company.

NOW, THEREFORE, in consideration of the mutual promises and undertakings set forth herein, and intending to be legally bound hereby, the parties hereby mutually agree as follows:

1. Trade Secrets and Confidential Information

Individual understands Franchisee possesses and will possess Trade Secrets and other Confidential Information that are important to its business.

a) For the purposes of this Agreement, a "Trade Secret" is information in any form (including, but not limited to, materials and techniques, technical or non-technical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans, passwords, lists of actual or

EXHIBIT 2 TO THE FRANCHISE AGREEMENT

potential customers or suppliers) related to or used in the Franchised Business that is not commonly known by or available to the public and that information: (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

b) For the purposes of this Agreement “Confidential Information” means technical and non-technical information used in or related to the Franchised Business that is not commonly known by or available to the public, including, without limitation, Trade Secrets and information contained in the Operations Manual and training guides and materials. In addition, any other information identified as confidential when delivered by Franchisee shall be deemed Confidential Information. Confidential Information shall not include, however, any information that: (i) is now or subsequently becomes generally available to the public through no fault of Individual; (ii) Individual can demonstrate was rightfully in its possession, without obligation of nondisclosure, prior to disclosure pursuant to this Agreement; (iii) is independently developed without the use of any Confidential Information; or (iv) is rightfully obtained from a third party who has the right, without obligation of nondisclosure, to transfer or disclose such information.

c) Any information expressly designated by Company or Franchisee as “Trade Secrets” or “Confidential Information” shall be deemed such for all purposes of this Agreement, but the absence of designation shall not relieve Individual of his or her obligations hereunder in respect of information otherwise constituting Trade Secrets or Confidential Information. Individual understands Franchisee’s providing of access to the Trade Secrets and other Confidential Information creates a relationship of confidence and trust between Individual and Franchisee with respect to the Trade Secrets and other Confidential Information.

2. Confidentiality/Non-Disclosure

a) Individual shall not communicate or divulge to (or use for the benefit of) any other person, firm, association, or corporation, with the sole exception of Franchisee, now or at any time in the future, any Trade Secrets or other Confidential Information. At all times from the date of this Agreement, Individual must take all steps reasonably necessary and/or requested by Franchisee to ensure that the Confidential Information and Trade Secrets are kept confidential pursuant to the terms of this Agreement. Individual must comply with all applicable policies, procedures and practices that Franchisee has established and may establish from time to time with regard to the Confidential Information and Trade Secrets.

b) Individual’s obligations under paragraph 2(a) of this Agreement shall continue in effect after termination of Individual’s relationship with Franchisee, regardless of the reason or reasons for termination, and whether such termination is voluntary or involuntary, and Franchisee is entitled to communicate Individual’s obligations under this Agreement to any future customer or employer to the extent

EXHIBIT 2 TO THE FRANCHISE AGREEMENT

deemed necessary by Franchisee for protection of its rights hereunder and regardless of whether Individual or any of its affiliates or assigns becomes an investor, partner, joint venturer, broker, distributor or the like in a Hot Fries Business.

3. Non-Competition

a) During the term of Individual's relationship with Franchisee and for a period of two (2) years after the expiration or termination of Individual's relationship with Franchisee, regardless of the cause of expiration or termination, Individual shall not, directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity, divert or attempt to divert any business or customer of Franchisee to any Competitive Business, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Company's trademark "Hot Fries" and such other trade names, trademarks, service marks, trade dress, designs, graphics, logos, emblems, insignia, fascia, slogans, drawings and other commercial symbols as the Company designates to be used in connection with the Franchised Businesses or the Company's uniform standards, methods, procedures and specifications for the establishment and operation of a Franchised Business.

b) During the term of Individual's relationship with Franchisee, Individual shall not, directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity, carry on, be engaged in or take part in, render services to, or own or share in the earnings of any Competitive Business anywhere within a twenty-five (25) mile radius of the Franchisee's Approved Location or within Franchisee's Territory, whichever is greater without the express written consent of Franchisee.

c) For a two (2) year period following the term of Individual's relationship with Franchisee, regardless of the cause of termination, Individual shall not, directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity, carry on, be engaged in or take part in, render services to, or own or share in the earnings of any Competitive Business within a twenty-five (25) mile radius of Franchisee's Approved Location or within Franchisee's Territory, whichever is greater, or within twenty-five (25) miles of any other Hot Fries Business without the express written consent of Franchisee. For purposes of this Agreement, Franchisee's "Territory" is defined as:

d) During the term of Individual's relationship with Franchisee and for a period of two (2) years thereafter, regardless of the cause of termination, Individual shall not, directly or indirectly, solicit or otherwise attempt to induce or influence any

EXHIBIT 2 TO THE FRANCHISE AGREEMENT

employee or other business associate of Franchisee, Company or any other Hot Fries Business to compete against, or terminate or modify his, her or its employment or business relationship with, Franchisee, Company or any other Hot Fries Business.

4. Reasonableness of Restrictions

Individual acknowledges that each of the terms set forth herein, including the restrictive covenants, is fair and reasonable and is reasonably required for the protection of Franchisee, Company, and Company's Trade Secrets and other Confidential Information, the Company's business system, network of franchises and trade and service marks, and Individual waives any right to challenge these restrictions as being overly broad, unreasonable or otherwise unenforceable. If, however, a court of competent jurisdiction determines that any such restriction is unreasonable or unenforceable, then Individual shall submit to the reduction of any such activity, time period or geographic restriction necessary to enable the court to enforce such restrictions to the fullest extent permitted under applicable law. It is the desire and intent of the parties that the provisions of this Agreement shall be enforced to the fullest extent permissible under the laws and public policies applied in any jurisdiction where enforcement is sought.

5. Relief for Breaches of Confidentiality, Non-Solicitation and Non-Competition

Individual further acknowledges that an actual or threatened violation of the covenants contained in this Agreement will cause Franchisee and Company immediate and irreparable harm, damage and injury that cannot be fully compensated for by an award of damages or other remedies at law. Accordingly, Franchisee and Company shall be entitled, as a matter of right, to an injunction from any court of competent jurisdiction restraining any further violation by Individual of this Agreement without any requirement to show any actual damage or to post any bond or other security. Such right to an injunction shall be cumulative and in addition to, and not in limitation of, any other rights and remedies that Franchisee and Company may have at law or in equity.

6. Miscellaneous

a) This Agreement constitutes the entire Agreement between the parties with respect to the subject matter hereof. This Agreement supersedes any prior agreements, negotiations and discussions between Individual and Franchisee. This Agreement cannot be altered or amended except by an agreement in writing signed by the duly authorized representatives of the parties.

b) Except to the extent this Agreement or any particular dispute is governed by the U.S. Trademark Act of 1946 or other federal law, this Agreement shall be governed by and construed in accordance with the laws of the State of California (without reference to its conflict of laws principles). The Federal Arbitration Act shall govern all matters subject to arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a

EXHIBIT 2 TO THE FRANCHISE AGREEMENT

governmental agency also refer to any regulatory body that succeeds the function of such agency.

c) Any action brought by either party, shall only be brought in the appropriate state or federal court located in or serving Santa Ana, California. The parties waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision. Company may bring claims for injunctive relief where Franchisee is located. This exclusive choice of jurisdiction and venue provision shall not restrict the ability of the parties to confirm or enforce judgments or arbitration awards in any appropriate jurisdiction.

d) Individual agrees if any legal proceedings are brought for the enforcement of this Agreement, in addition to any other relief to which the successful or prevailing party may be entitled, the successful or prevailing party shall be entitled to recover attorneys' fees, investigative fees, administrative fees billed by such party's attorneys, court costs and all expenses, including, without limitation, all fees, taxes, costs and expenses incident to arbitration, appellate, and post-judgment proceedings incurred by the successful or prevailing party in that action or proceeding.

e) This Agreement shall be effective as of the date this Agreement is executed and shall be binding upon the successors and assigns of Individual and shall inure to the benefit of Franchisee, its subsidiaries, successors and assigns. Company is an intended third-party beneficiary of this Agreement with the independent right to enforce the confidentiality and non-competition provisions contained herein.

f) The failure of either party to insist upon performance in any one (1) or more instances upon performance of any terms and conditions of this Agreement shall not be construed a waiver of future performance of any such term, covenant or condition of this Agreement and the obligations of either party with respect thereto shall continue in full force and effect.

g) The paragraph headings in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

h) In the event that any part of this Agreement shall be held to be unenforceable or invalid, the remaining parts hereof shall nevertheless continue to be valid and enforceable as though the invalid portions were not a part hereof.

i) This Agreement may be modified or amended only by a written instrument duly executed by Individual, Franchisee and Company.

j) The existence of any claim or cause of action Individual might have against Franchisee or Company will not constitute a defense to the enforcement by Franchisee or Company of this Agreement.

EXHIBIT 2 TO THE FRANCHISE AGREEMENT

k) Except as otherwise expressly provided in this Agreement, no remedy conferred upon Franchisee or Company pursuant to this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given pursuant to this Agreement or now or hereafter existing at law or in equity or by statute or otherwise. No single or partial exercise by any party of any right, power or remedy pursuant to this Agreement shall preclude any other or further exercise thereof.

INDIVIDUAL CERTIFIES THAT HE OR SHE HAS READ THIS AGREEMENT CAREFULLY AND UNDERSTANDS AND ACCEPTS THE OBLIGATIONS THAT IT IMPOSES WITHOUT RESERVATION. NO PROMISES OR REPRESENTATIONS HAVE BEEN MADE TO SUCH PERSON TO INDUCE THE SIGNING OF THIS AGREEMENT.

THE PARTIES ACKNOWLEDGE THAT THE COMPANY IS A THIRD PARTY BENEFICIARY TO THIS AGREEMENT AND THAT THE COMPANY SHALL BE ENTITLED TO ENFORCE THIS AGREEMENT WITHOUT THE COOPERATION OF THE FRANCHISEE. INDIVIDUAL AND FRANCHISEE AGREE THAT THIS AGREEMENT CANNOT BE MODIFIED OR AMENDED WITHOUT THE WRITTEN CONSENT OF THE COMPANY.

IN WITNESS WHEREOF, Franchisee has hereunto caused this Agreement to be executed by its duly authorized officer, and Individual has executed this Agreement, all being done in duplicate originals with one (1) original being delivered to each party as of the day and year first above written.

WITNESS:

FRANCHISEE:

By: _____

Its: _____

INDIVIDUAL:

Signature: _____

Name Printed: _____

EXHIBIT 4 TO THE FRANCHISE AGREEMENT

UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATION

THIS UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATIONS in connection with that certain Franchise Agreement of even date herewith (which Franchise Agreement, as may have been modified, amended and/or supplemented in writing, is hereunder called the Franchise Agreement by and between Hot Fries Franchising, LLC as “Franchisor” and _____ as “Franchisee”).

For valuable consideration received, and as an inducement to Franchisor to enter into the Franchise Agreement, the undersigned (“Guarantor”) hereby unconditionally guarantees to Franchisor: (a) the full and timely performance by Franchisee of the Franchise Agreement and all terms, conditions and covenants thereof, and (b) the payment by Franchisee of royalties and all other sums payable by Franchisee under the Franchise Agreement.

Guarantor agrees that (1) the obligations shall be enforceable against Guarantor without the necessity for any suit or proceedings whatsoever against Franchisee, and without the necessity of any notice of nonpayment, nonperformance or nonobservance or any notice of acceptance of this Guaranty Agreement or any other notice or demand to which Guarantor might otherwise be entitled, all of which Guarantor hereby expressly waives; (2) immediately upon each and every breach or default of the Franchise Agreement by Franchisee, whether before or during the term of the Franchise Agreement or thereafter (e.g., during any renewal term), without any notice to or demand upon Guarantor. Guarantor will (i) pay to Franchisor the sum or sums in arrears, (ii) pay to Franchisor all damages, including but not limited to any expenses, costs and fees incurred by Franchisor, that may be occasioned by Franchisee's nonperformance, and (iii) comply with or perform all terms and conditions of the Franchise Agreement; (3) no extension, forbearance or leniency extended by Franchisor to Franchisee shall wholly or partially discharge Guarantor hereunder, notwithstanding that Guarantor had no notice of any breach or default of the Franchise Agreement or of any such leniency, forbearance or extension; (4) Franchisor and Franchisee, without notice to or consent by Guarantor, may at any time(s) enter into modifications, renewals, extensions, amendments and/or other agreements respecting the Franchise Agreement, and Guarantor shall not be wholly or partially released thereby, it being intended that Guarantor shall continue as guarantor with respect to the Franchise Agreement as so modified, renewed, extended, amended or otherwise affected and notwithstanding any transfer or assignment of the Franchise Agreement.

The obligations of Guarantor herein shall be co-extensive with those of Franchisee under the Franchise Agreement and shall remain in effect as long as Franchisee's obligations under the Franchise Agreement are in effect. This Guaranty Agreement is absolute and unconditioned and shall continue without being affected by

EXHIBIT 4 TO THE FRANCHISE AGREEMENT

any impairment, release or limitation of the liability of Franchisee or its estate in bankruptcy resulting from the operation of any present or future provision of the Bankruptcy Code of the United States or from the decision of any court interpreting the same. Guarantor further agrees to be bound by each and every obligation of Franchisee under the Franchise Agreement, with the same force and effect as if Guarantor were designed in and had executed the Franchise Agreement as Franchisee thereunder.

This Guaranty Agreement is a primary guaranty of payment and performance and shall not be subject to any counterclaim, set-off, deduction or defense. No failure or delay on the part of Franchisor in exercising any right or remedy under the Franchise Agreement and/or this Guaranty Agreement shall operate as a waiver thereof nor shall a single or partial exercise of any right or remedy preclude any other or further exercise thereof, and all rights and remedies of Franchisor hereunder and under the Franchise Agreement shall be cumulative. Until all Franchisee's obligations under the Franchise Agreement are fully performed, Guarantor waives any rights that it may have against Franchisee by reason of Guarantor's compliance with the Guaranty Agreement, and subordinates any liability or indebtedness of Franchisee held by Guarantor to the obligations of Franchisee to Franchisor under the Franchise Agreement.

If Guarantor consists of more than one person and/or entity, (a) this Guaranty Agreement shall be binding on all of them jointly and severally, and (b) notice to or from any of them will constitute notice to or from each of them.

Any notice or other communication to Franchisor may be addressed to Hot Fries Franchising, LLC, 5825 Lincoln Ave. Ste. D, #260, Buena Park, CA 90620, Attention: Shawn Patel, or such other address as may be designated by Franchisor by registered or certified mail, return receipt requested, and the time of rendition of such notice or other communication shall be when it is deposited in an official United States Mail receptacle, postage prepaid.

This Guaranty Agreement, which is to be governed by and construed in accordance with the laws of the State of California, shall also bind Guarantor's legal or personal representatives, heirs, successors and assigns (as the case may be) and inure to the benefit of Franchisor's successors and assigns and any other person or entity at any time having the rights of Franchisor under the Franchise Agreement.

Guarantor will forthwith pay to Franchisor all attorney's fees and disbursements incurred by Franchisor in connection with any breach or default by Franchisee under the Franchise Agreement and/or the enforcement of this Guaranty Agreement, in each instance whether or not suit is brought (and if suit is brought, through appeals and collection efforts).

Any sums not paid to Franchisor when due hereunder will bear interest at the rate of 18% per annum, from the due date until full payment is received by Franchisor.

EXHIBIT 4 TO THE FRANCHISE AGREEMENT

As a further inducement to Franchisor to make and enter into the Franchise Agreement and in consideration thereof, Guarantor agrees that in any action or proceeding brought on, under or by virtue of this Guaranty Agreement, Guarantor shall and does hereby waive trial by jury and the benefit of any statute of limitations defense, and Guarantor agrees that the applicable courts of California may have jurisdiction over Guarantor upon appropriate service on Guarantor anywhere in the United States in a manner in accordance with the laws of California. Without limiting the foregoing, Guarantor hereby irrevocably appoints Franchisee as Guarantor's agent for service of process related to this Guaranty Agreement.

The Guaranty Agreement contains the entire agreement between the parties with respect to the matters covered hereby, and Guarantor acknowledges that no agent, representative, salesman or officer of Franchisor has authority to make or has made any statement, agreement or representation, either oral or written, in connection herewith, modifying, adding to or changing the terms and conditions herein set forth. No customs or dealings between the parties shall be permitted to contradict or modify the terms hereof. This Guaranty Agreement shall not be construed more strictly against one party merely by reason of such party's preparation hereof. If any provision of this Guaranty Agreement shall be held to be invalid or unenforceable, to the maximum extent possible the remaining provisions hereof shall in no way be affected or impaired and such remaining provisions shall continue in full force and effect. Neither this Guaranty Agreement nor any of its provisions can be waived, modified or terminated orally, but only by a written instrument duly executed by or on behalf of the party against whom enforcement of any waiver, modification or termination is sought.

Guarantor fully and expressly intends that the foregoing requirements as to a writing be strictly adhered to and strictly interpreted and enforced by any court that may be asked to consider the matter. This Guaranty shall be effective for the full Franchise Agreement term, including any extensions or renewals thereof.

GUARANTOR:

Social Security #

Driver's License #

Notice Address:

EXHIBIT 4 TO THE FRANCHISE AGREEMENT

HOLDERS OF LEGAL OR BENEFICIAL INTEREST IN FANCHISEE; OFFICERS; DIRECTORS

Holders of Legal or Beneficial Interest:

Name: _____
Position/Title: _____
Home Address: _____

Telephone No.: _____
E-mail address: _____
Percentage of ownership: _____%

Name: _____
Position/Title: _____
Home Address: _____

Telephone No.: _____
E-mail address: _____
Percentage of ownership: _____%

Name: _____
Position/Title: _____
Home Address: _____

Telephone No.: _____
E-mail address: _____
Percentage of ownership: _____%

Name: _____
Position/Title: _____
Home Address: _____

Telephone No.: _____
E-mail address: _____
Percentage of ownership: _____%

Officers and Directors:

Name: _____
Position/Title: _____
Home Address: _____

Telephone No.: _____
E-mail address: _____

Name: _____
Position/Title: _____
Home Address: _____

Telephone No.: _____
E-mail address: _____

Name: _____
Position/Title: _____
Home Address: _____

Telephone No.: _____
E-mail address: _____

Name: _____
Position/Title: _____
Home Address: _____

Telephone No.: _____
E-mail address: _____

EXHIBIT 5 TO THE FRANCHISE AGREEMENT

MULTI-STATE ADDENDA

FOR THE STATE OF CALIFORNIA

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Hot Fries Franchising, LLC and _____.

1. New Section 17.6 is inserted into the Franchise Agreement and states as follows:

If termination is the result of Franchisee's default, Franchisee will pay to Franchisor a lump sum payment (as liquidated damages for causing the premature termination of this Agreement and not as a penalty) equal to the total of all Royalty Fee payments for: (a) the twenty-four (24) calendar months of operation of Franchisee preceding Franchisee's default; (b) the period of time Franchisee has been in operation preceding the notice, if less than twenty-four (24) calendar months, projected on a twenty-four (24) calendar month basis; or (c) any shorter period as equals the unexpired term at the time of termination. The parties agree that a precise calculation of the full extent of the damages that Franchisor will incur on termination of this Agreement as a result of Franchisee's default is difficult and the parties desire certainty in this matter and agree that the lump sum payment provided under this Section is reasonable in light of the damages for premature termination that Franchisor will incur. This payment is not exclusive of any other remedies that Franchisor may have including recovery of attorneys' fees and costs.

2. In recognition of the requirements of the California Franchise Investment Law, Cal. Corp. Code §§31000-31516 and the California Franchise Relations Act, Cal. Bus. And Prof. Code §§20000-20043, the Franchise Agreement for Hot Fries Franchising, LLC is amended as follows:

- The California Franchise Relations Act provides rights to Franchisee concerning termination or non-renewal of the Franchise Agreement, which may supersede provisions in the Franchise Agreement, specifically Sections 4.2 and 16.
- Section 16.2.1.12 that terminates the Franchise Agreement upon the bankruptcy of Franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, *et seq.*).
- Section 17.2 contains a covenant not to compete that extends beyond the expiration or termination of the Agreement; this covenant may not be enforceable under California Law.
- Paragraph 1 of this Addendum contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

EXHIBIT 5 TO THE FRANCHISE AGREEMENT

- Section 23.6 requires binding arbitration. The arbitration will occur at the forum indicated in Section 23.6, with the costs being borne by the non-prevailing party. Prospective franchisees are encouraged to consult legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of the Franchise Agreement restricting venue to a forum outside of the State of California.

3. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

Hot Fries Franchising, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

EXHIBIT 6 TO THE FRANCHISE AGREEMENT

CONSENT TO COLLATERAL ASSIGNMENT AND AGREEMENT OF LESSOR

The undersigned Lessor under the Lease:

(a) Agrees to notify Assignee in writing of and upon Assignor's failure to cure any default by Assignor under the Lease;

(b) Agrees that Assignee will have the right, but not the obligation, to cure any default by Assignor under the Lease within thirty (30) days after Lessor's delivery of notice of the default under section (a) above;

(c) Consents to the Collateral Assignment and agrees that if Assignee takes possession of the premises the Lease demises and confirms to Lessor that it has assumed the Lease as tenant, Lessor will recognize Assignee as tenant under the Lease, provided that Assignee cures within the thirty (30) day period noted in section (b) above Assignor's defaults under the Lease; and

(d) Agrees that Assignee may further assign the Lease to or enter into a sublease with a qualified person, firm or corporation who agrees to assume the tenant's obligations under the Lease and is reasonably acceptable to Lessor and that upon that assignment Assignee will have no further liability or obligation under the Lease as assignee, tenant or otherwise, other than to certify that the additional assignee or sublessee operates the premises the Lease demises as a retail store.

Assignee

Hot Fries Franchising, LLC

Assignor

Lessor

By: _____

Title : _____

Date : _____

HOT FRIES CONFIDENTIAL OPERATIONS MANUAL

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EXHIBIT E TO THE DISCLOSURE DOCUMENT

FINANCIAL STATEMENTS

EXHIBIT E TO THE DISCLOSURE DOCUMENT



A. ANDREW GIANIODIS

CERTIFIED PUBLIC ACCOUNTANT

HOT FRIES FRANCHISING, LLC.

DECEMBER 31, 2018 AND 2017

FINANCIAL STATEMENTS

279 Niagara Falls Blvd. Amherst, New York 14226 716 – 510-6068

EXHIBIT E TO THE DISCLOSURE DOCUMENT

HOT FRIES FRANCHISING, LLC.

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EXHIBIT E TO THE DISCLOSURE DOCUMENT



A. ANDREW GIANIODIS
CERTIFIED PUBLIC ACCOUNTANT

March 25, 2019

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members of
Hot Fries Franchising, LLC:

REPORT ON FINANCIAL STATEMENTS

I have audited the accompanying balance sheet of Hot Fries Franchising, LLC (a limited liability company) as of December 31, 2018 and 2017 and the related statements of operations, changes in owner's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with generally accepted auditing standards as accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, I express no such opinion.

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279 Niagara Falls Blvd. Amherst, New York 14226 716 – 510-6068

EXHIBIT E TO THE DISCLOSURE DOCUMENT

An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hot Fries Franchising, LLC (a limited liability company) as of December 31, 2018 and 2017 and the results of operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in dark ink, appearing to read "A. Andrew Gianiodis" followed by "CPA" in smaller letters.

A. Andrew Gianiodis

Certified Public Accountant

EXHIBIT E TO THE DISCLOSURE DOCUMENT

Hot Fries Franchising, LLC.

Balance Sheet December 31, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash	\$ 12,463	\$ 12,317
Subscription receivable	-	-
Total Current Assets	<u>12,463</u>	<u>12,317</u>
Other assets		
Intangible assets (net)	-	-
	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 12,463</u>	<u>\$ 12,317</u>
Liabilities & Equity		
Current liabilities		
Due to affiliate	<u>\$ 16,102</u>	<u>\$ 16,102</u>
Total liabilities	<u>16,102</u>	<u>16,102</u>
Member's Equity	<u>(3,639)</u>	<u>(3,785)</u>
Total equity	<u>(3,639)</u>	<u>(3,785)</u>
Total liabilities and equity	<u>\$ 12,463</u>	<u>\$ 12,317</u>

See accompanying notes

- 2 -

EXHIBIT E TO THE DISCLOSURE DOCUMENT

Hot Fries Franchising, LLC.
Statement of Operations
Years ending December 31, 2018 and 2017

	2018	2017
Revenues		
Initial franchise fee	\$ -	\$ -
Royalties	23,221	37,141
Total revenue	<u>23,221</u>	<u>37,141</u>
Expenses		
Advertising and marketing	3,471	3,421
Commission	2,250	26,200
Computer	718	-
Design	1,391	467
Miscellaneous	329	240
Office expenses	1,207	309
Printing	1,128	269
Professional fees	2,376	1,000
Shipping	543	165
Supplies	1,329	92
Storage	828	2,045
Taxes	800	-
Telephone	2,371	1,162
Travel	4,334	1,328
Total expenses	<u>23,075</u>	<u>36,698</u>
Net Income	<u>\$ 146</u>	<u>\$ 443</u>

See accompanying notes

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EXHIBIT E TO THE DISCLOSURE DOCUMENT

Hot Fries Franchising, LLC.

Statement of Changes in Owner's Equity Years ending December 31, 2018 and 2017

	Total Equity
Owners' Equity at January 1, 2017	\$ (4,228)
Equity Infusion	-
Net Income	<u>443</u>
Owners' equity at December 31, 2017	<u>\$ (3,785)</u>
Owners' Equity at January 1, 2018	\$ (3,785)
Equity Infusion	-
Net Income	<u>146</u>
Owners' equity at December 31, 2018	<u>\$ (3,639)</u>

See accompanying notes

- 4 -

EXHIBIT E TO THE DISCLOSURE DOCUMENT

Hot Fries Franchising, LLC.
Statement of Cash Flows
Years ending December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net Income	<u>\$ 146</u>	<u>\$ 443</u>
Adjustments to reconcile net loss to net cash provided by operating activities:		-
Depreciation & amortization	-	-
Changes in assets and liabilities		
Current assets	-	-
Current liabilities	<u>-</u>	<u>3,191</u>
Net cash provided by operating activities	<u>146</u>	<u>3,634</u>
Cash flows from investing activities:	<u>-</u>	<u>-</u>
Net cash provided by investing activities	<u>-</u>	<u>-</u>
Cash flows from financing activities:		
Intangible Asset	-	-
Capital infusion	<u>-</u>	<u>-</u>
Net cash provided by investing activities	<u>-</u>	<u>-</u>
Net increase in cash	146	3,634
Cash - beginning of year	<u>12,317</u>	<u>8,683</u>
Cash - end of year	<u><u>\$ 12,463</u></u>	<u><u>\$ 12,317</u></u>
Supplemental Disclosures		
Interest Paid	-	-
Income Taxes Paid	-	-

See accompanying notes

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EXHIBIT E TO THE DISCLOSURE DOCUMENT

HOT FRIES FRANCHISING, LLC NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF BUSINESS

The Company was incorporated under the laws of the State of California for the purpose of offering franchise opportunities to entrepreneurs who want to own and operate their Hot Fries Restaurant as a franchise.

BASIS OF PRESENTATION

The financial statements are presented on the accrual basis of accounting.

REVENUE RECOGNITION

Initial franchise fees will be recorded as income when the company provides substantially all the initial services agreed upon in the franchise agreement or when the franchise has commenced operations, whichever comes first. If the fee is received over a period of time and the Company has no reasonable basis for estimating the collectability of the fee, the Company will use the installment method of recognition of the initial fee as revenue.

Monthly royalty fees will be recognized when paid by the franchisee.

COMPANY INCOME TAXES

The Company is an LLC; as such, the Company will not be responsible for income taxes on the company level. Instead, its taxable income will be included on the owner's personal tax returns.

NOTE 2 DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company estimates that the fair value of all financial instruments at December 31, 2018 and 2017, as defined in FASB 107, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

EXHIBIT E TO THE DISCLOSURE DOCUMENT

HOT FRIES FRANCHISING, LLC NOTES TO FINANCIAL STATEMENTS

NOTE 3 COMMITMENTS AND CONTINGENCIES

The Company does not carry general liability or worker's compensation coverage, nor is it self-insured.

NOTE 4 FRANCHISE AGREEMENT

The terms of the Company's franchise agreement will be as follows:

- A. The Company will grant the right to use the Company name, trademark and system in the franchisee's franchise development business.
- B. The franchisee is obligated to pay a non-refundable initial franchise fee.
- C. The franchisee is obligated to pay a monthly royalty fee. Certain other fees are also outlined in the agreement.

NOTE 5 SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 25, 2019, the date that the financial statements were available to be issued.

EXHIBIT E TO THE DISCLOSURE DOCUMENT



A. ANDREW GIANIODIS

CERTIFIED PUBLIC ACCOUNTANT

HOT FRIES FRANCHISING, LLC.

DECEMBER 31, 2017 AND 2016

FINANCIAL STATEMENTS

279 Niagara Falls Blvd. Amherst, New York 14226 716 – 510-6068

EXHIBIT E TO THE DISCLOSURE DOCUMENT

HOT FRIES FRANCHISING, LLC.

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EXHIBIT E TO THE DISCLOSURE DOCUMENT



A. ANDREW GIANIODIS
CERTIFIED PUBLIC ACCOUNTANT

April 24, 2018

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members of
Hot Fries Franchising, LLC:

REPORT ON FINANCIAL STATEMENTS

I have audited the accompanying balance sheet of Hot Fries Franchising, LLC (a limited liability company) as of December 31, 2017 and 2016 and the related statements of operations, changes in owner's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with generally accepted auditing standards as accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, I express no such opinion.

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279 Niagara Falls Blvd. Amherst, New York 14226 716 – 510-6068

EXHIBIT E TO THE DISCLOSURE DOCUMENT

An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hot Fries Franchising, LLC (a limited liability company) as of December 31, 2017 and 2016 and the results of operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in dark ink, appearing to read "A. Andrew Gianiodis" followed by "CPA" in smaller letters.

A. Andrew Gianiodis

Certified Public Accountant

EXHIBIT E TO THE DISCLOSURE DOCUMENT

Hot Fries Franchising, LLC.

Balance Sheet December 31, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash	\$ 12,317	\$ 8,683
Subscription receivable	-	-
Total Current Assets	<u>12,317</u>	<u>8,683</u>
Other assets		
Intangible assets (net)	-	-
	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 12,317</u>	<u>\$ 8,683</u>
Liabilities & Equity		
Current liabilities		
Due to affiliate	<u>\$ 16,102</u>	<u>\$ 12,911</u>
Total liabilities	<u>16,102</u>	<u>12,911</u>
Member's Equity	<u>(3,785)</u>	<u>(4,228)</u>
Total equity	<u>(3,785)</u>	<u>(4,228)</u>
Total liabilities and equity	<u>\$ 12,317</u>	<u>\$ 8,683</u>

See accompanying notes

- 2 -

EXHIBIT E TO THE DISCLOSURE DOCUMENT

Hot Fries Franchising, LLC.
Statement of Operations
Years ending December 31, 2017 and 2016

	2017	2016
Revenues		
Initial franchise fee	\$ -	\$ 20,000
Royalties	37,141	-
Total revenue	<u>37,141</u>	<u>20,000</u>
Expenses		
Advertising and marketing	3,421	3,350
Commission	26,200	5,000
Design	467	812
Miscellaneous	240	525
Office expenses	309	362
Printing	269	456
Professional fees	1,000	876
Shipping	165	191
Supplies	92	2,922
Storage	2,045	-
Telephone	1,162	-
Travel	1,328	1,237
Total expenses	<u>36,698</u>	<u>15,731</u>
Net Income	<u>\$ 443</u>	<u>\$ 4,269</u>

See accompanying notes

- 3 -

EXHIBIT E TO THE DISCLOSURE DOCUMENT

Hot Fries Franchising, LLC.

Statement of Changes in Owner's Equity Years ending December 31, 2017 and 2016

	Total Equity
Owners' Equity at January 1, 2016	\$ (8,497)
Equity Infusion	-
Net Income	<u>4,269</u>
Owners' equity at December 31, 2016	<u>\$ (4,228)</u>
Owners' Equity at January 1, 2017	\$ (4,228)
Equity Infusion	-
Net Income	<u>443</u>
Owners' equity at December 31, 2017	<u>\$ (3,785)</u>

See accompanying notes

- 4 -

EXHIBIT E TO THE DISCLOSURE DOCUMENT

Hot Fries Franchising, LLC.
Statement of Cash Flows
Years ending December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net Income	\$ 443	\$ 4,269
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation & amortization	-	-
Changes in assets and liabilities		
Current assets	-	-
Current liabilities	3,191	3,575
Net cash provided by operating activities	3,634	7,844
Cash flows from investing activities:	-	-
Net cash provided by investing activities	-	-
Cash flows from financing activities:		
Intangible Asset	-	-
Capital infusion	-	-
Net cash provided by investing activities	-	-
Net increase in cash	3,634	7,844
Cash - beginning of year	8,683	839
Cash - end of year	\$ 12,317	\$ 8,683
Supplemental Disclosures		
Interest Paid	-	-
Income Taxes Paid	-	-

See accompanying notes

- 5 -

EXHIBIT E TO THE DISCLOSURE DOCUMENT

HOT FRIES FRANCHISING, LLC NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF BUSINESS

The Company was incorporated under the laws of the State of California for the purpose of offering franchise opportunities to entrepreneurs who want to own and operate their Hot Fries Restaurant as a franchise.

BASIS OF PRESENTATION

The financial statements are presented on the accrual basis of accounting.

REVENUE RECOGNITION

Initial franchise fees will be recorded as income when the company provides substantially all the initial services agreed upon in the franchise agreement or when the franchise has commenced operations, whichever comes first. If the fee is received over a period of time and the Company has no reasonable basis for estimating the collectability of the fee, the Company will use the installment method of recognition of the initial fee as revenue.

Monthly royalty fees will be recognized when paid by the franchisee.

COMPANY INCOME TAXES

The Company is an LLC; as such, the Company will not be responsible for income taxes on the company level. Instead, its taxable income will be included on the owner's personal tax returns.

NOTE 2 DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company estimates that the fair value of all financial instruments at December 31, 2017, as defined in FASB 107, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

EXHIBIT E TO THE DISCLOSURE DOCUMENT

HOT FRIES FRANCHISING, LLC NOTES TO FINANCIAL STATEMENTS

NOTE 3 COMMITMENTS AND CONTINGENCIES

The Company does not carry general liability or worker's compensation coverage, nor is it self-insured.

NOTE 4 FRANCHISE AGREEMENT

The terms of the Company's franchise agreement will be as follows:

- A. The Company will grant the right to use the Company name, trademark and system in the franchisee's franchise development business.
- B. The franchisee is obligated to pay a non-refundable initial franchise fee.
- C. The franchisee is obligated to pay a monthly royalty fee. Certain other fees are also outlined in the agreement.

NOTE 5 CONSULTATION AGREEMENT

The Company entered into a Consultation Agreement with Franchise Marketing Systems Inc. ("FMS"). FMS is retained to prepare franchise operations manuals and to market and sell the Company's franchises based on an advertising budget provided by Hot Fries Franchising, LLC.

NOTE 6 SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 24, 2018, the date that the financial statements were available to be issued.

EXHIBIT E TO THE DISCLOSURE DOCUMENT



A. ANDREW GIANIODIS
CERTIFIED PUBLIC ACCOUNTANT

CONSENT OF THE INDEPENDENT AUDITOR

April 24, 2018

Ladies and Gentlemen:

A. Andrew Gianiodis, CPA hereby consent to the use in the Franchise Disclosure Document issued by Hot Fries Franchising, LLC ("Franchisor") on April 24, 2018, of our report dated April 24, 2018, the financial statements of Franchisor for the years ending December 31, 2017 and 2016.

A. Andrew Gianiodis, CPA

279 Niagara Falls Blvd. Amherst, New York 14226 716 – 510-6068

EXHIBIT F TO THE DISCLOSURE DOCUMENT

LIST OF CURRENT AND TERMINATED FRANCHISES

THE JABER GROUP INC.
2031 S. Mooney Blvd. Suite 5545
Visalia CA 93277
Khalil Jaber
559-735-9088
khalil.jaber@hotfriesusa.com

Goalmet Enterprises, LLC.
2401 S. Stemmons Fwy #2330
Lewisville TX 75067
Samy Eskander
972-315-0440
hotfriestx@outlook.com

There are currently ~~neither no~~ franchisees ~~nor any~~ who have had an outlet terminated, cancelled, transferred, not renewed or otherwise voluntarily or involuntarily ceased to do business under a franchise agreement during the most recently completed fiscal year or who have not communicated with Franchisor within 10 weeks of the application date.

EXHIBIT G TO THE DISCLOSURE DOCUMENT

FRANCHISE DISCLOSURE QUESTIONNAIRE

As you know, Hot Fries Franchising, LLC and you are preparing to enter into a Franchise Agreement for the operation of a Franchised Business. In this Franchisee Disclosure Questionnaire, Hot Fries Franchising, LLC will be referred to as “we” or “us.” The purpose of this Questionnaire is to determine whether any statements or promises were made to you that we did not authorize and that may be untrue, inaccurate or misleading. Please review each of the following questions carefully and provide honest and complete responses to each question.

1. Have you received and personally reviewed Hot Fries Franchising, LLC Franchise Agreement and each exhibit, addendum and schedule attached to it?

Yes ___ No ___

2. Do you understand all of the information contained in the Franchise Agreement and each exhibit and schedule attached to it?

Yes ___ No ___

If “No”, what parts of the Franchise Agreement do you not understand?
(Attach additional pages, if necessary.)

3. Have you received and personally reviewed our Disclosure Document Franchisor provided to you?

Yes ___ No ___

4. Do you understand all of the information contained in the Disclosure Document?

Yes ___ No ___

EXHIBIT G TO THE DISCLOSURE DOCUMENT

If “No”, what parts of the Disclosure Document do you not understand?
(Attach additional pages, if necessary.)

5. Have you discussed the benefits and risks of operating the Franchised Business with an attorney, accountant or other professional advisor and do you understand those risks?

Yes ___ No ___

6. Do you understand that the success or failure of Franchisee’s business will depend in large part upon Franchisee’s skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease terms and other economic and business factors?

Yes ___ No ___

7. Has any employee or other person speaking on our behalf made any statement or promises concerning the revenues, profits or operating costs of the Franchised Business that Franchisor or our franchisees operate?

Yes ___ No ___

8. Has any employee or other person speaking on our behalf made any statement or promise concerning a Franchised Business that is contrary to, or different from, the information contained in the Disclosure Document?

Yes ___ No ___

9. Has any employee or other person speaking on our behalf made any statement or promise concerning the likelihood of success that you should or might expect to achieve from operating a Franchised Business?

Yes ___ No ___

10. Has any employee or other person speaking on our behalf made any statement, promise or agreement concerning the advertising, marketing, training, support service or assistance that Franchisor will furnish to you that is contrary to, or different from, the information contained in the Disclosure Document?

Yes ___ No ___

11. If you have answered “Yes” to any of questions 7 through 10, please provide a full explanation of your answer in the following blank lines. (Attach additional

EXHIBIT G TO THE DISCLOSURE DOCUMENT

pages, if necessary, and refer to them below.) If you have answered “No” to each of these questions, please leave the following lines blank.

12. Do you understand that in all dealings with you, our officers, directors, employees and agents act only in a representative capacity and not in an individual capacity and these dealings are solely between you and us?

Yes ___ No ___

You understand that your answers are important to Franchisor and that Franchisor will rely on them.

By signing this Franchisee Disclosure Questionnaire, you are representing that you have responded truthfully to the above questions.

Name of Franchisee/Applicant

Date: _____, 20____

Signature

Name and Title of Person Signing

EXHIBIT H TO THE DISCLOSURE DOCUMENT

MULTI STATE ADDENDA

FOR THE STATE OF CALIFORNIA

1. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.
2. Section 31125 of the California Corporations Code requires Franchisor to give Franchisee a Disclosure Document in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.
3. You must sign a general release if Franchisee renew or transfer Franchisee's franchise. California Corporations Code §31512 voids a waiver of Franchisee's rights under the Franchise Investment Law (California Corporations Code §§31000 through 31516). Business and Professions Code §20010 voids a waiver of Franchisee's rights under the Franchise Relations Act (Business and Professions Code §§20000 through 20043).
4. Neither the franchisor, any person or franchise broker in ITEM 2 of the Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling these persons from membership in the association or exchange.
5. ITEM 17 of the Disclosure Document is amended to add the following:
 - The California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.
 - The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).
 - The Franchise Agreement contains a covenant not to compete that extends beyond the term of the agreement. This provision might not be enforceable under California law.
 - The Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

EXHIBIT H TO THE DISCLOSURE DOCUMENT

- The Franchise Agreement requires binding arbitration. The arbitration will occur at the forum indicated in ITEM 17 with the costs being borne by the non-prevailing party. Prospective franchisees are encouraged to consult legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of the Franchise Agreement restricting venue to a forum outside the State of California.
- The following URL address is for the franchisor's website:
www.HotFriesUSA.com

FRANCHISOR'S WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT www.dbo.ca.gov.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

Hot Fries Franchising, LLC:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

RECEIPT

Issuance Date: 049/015/20198

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 Hot Fries Franchising, LLC offers you a franchise, Hot Fries Franchising, LLC must provide this Disclosure Document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale unless otherwise stated in your state's addendum. The delivery of the Disclosure Document is to be received at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship in the States of Maryland or New York.

If Hot Fries Franchising, LLC 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 the State Administrator listed in Exhibit A.

The following is the name, principal business addresses, and telephone numbers of each franchise seller offering the franchise:

Nishant Patel, 5825 Lincoln Ave. Ste. D, #260, Buena Park, CA 90620, 949-954-0411

Our Agents for Service of Process are listed in Exhibit B.

I have received a Franchise Disclosure Document including the following exhibits on the date listed below:

- A. List of State Administrators
- B. List of State Agents for Service of Process
- C. Franchise Agreement
- D. Table of Contents to the Operations Manual
- E. Financial Statements
- F. List of Terminated Franchisees
- G. Franchisee Disclosure Questionnaire
- H. Multi-State Addenda

Please sign and print your name below, date and return one copy of this receipt to Hot Fries Franchising, LLC and keep the other for your records.

Signature: _____

Print Name: _____

Date of Receipt: _____

Company Name: _____

Return to:

Hot Fries Franchising, LLC
5825 Lincoln Ave. Ste. D, #260
Buena Park, CA 90620

RECEIPT

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