

Received  
Room  
APR 23 2018  
Department of  
Business Oversight  
Item 19

### FINANCIAL PERFORMANCE REPRESENTATIONS

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

The following represents the actual sales, expenses and net income for 2017 for the company-owned HuHot Mongolian Grill Restaurant, operated in Middleton (Madison), Wisconsin. The owner is Mongolian Grill Restaurants Operating Company, LLC, a fully-owned subsidiary of MGR, of which the Franchisor is also a fully-owned subsidiary. Based on that relationship, we consider the Madison restaurant to be company-owned. The revenues and expenses are actual numbers from this store, but we did not include interest, depreciation, amortization, income taxes, debt service, and owner's draw. In addition, you will incur expenses that company-owned Restaurants do not incur. Your revenues and expenses will vary significantly depending on a number of factors, including the location of your store and how you operate your business.

The HuHot Mongolian Grill Restaurant in Madison, Wisconsin, for which the financial performance representations are provided, is substantially similar to the HuHot Restaurant concept being offered to you. The restaurant for which financial performance representations are being furnished is located in a small strip center in the City of Middleton, Wisconsin (part of the Madison, Wisconsin Metropolitan Statistical Area). The Madison Metropolitan Statistical Area, as defined by the U.S. Office of Management and Budget, has an estimated population of approximately 569,000 people. The HuHot Mongolian Grill Restaurant is approximately 5,500 square feet in area with seating for 175 customers, and has the same menu items that we require you to offer. The restaurant opened in 2008, so these figures are from its 9<sup>th</sup> full calendar year of operations. This location was selected for disclosure because of our company-owned locations it has sales closest to our system average sales (including affiliate-owned and franchisee-owned).

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|                                 |                    |
|---------------------------------|--------------------|
| Gross Revenue                   |                    |
| Meals                           | \$1,445,630        |
| Appetizers                      | 59,003             |
| Desserts                        | 19,365             |
| Soft Beverages                  | 174,342            |
| Alcoholic Beverages             | 37,261             |
| Retail Sales                    | 228                |
| Total Gross Revenue             | <u>\$1,735,829</u> |
| Promotions, Discounts           | - 99,013           |
| Sales Taxes                     | <u>85,385</u>      |
| Total Net Sales                 | <u>\$1,551,431</u> |
| Cost of Goods Sold              |                    |
| Meals                           | 334,576            |
| Appetizers                      | 12,508             |
| Desserts                        | 8,478              |
| Soft Beverages                  | 35,546             |
| Alcoholic Beverages             | 13,431             |
| Total CGS                       | <u>404,539</u>     |
| Gross Profit                    | <u>\$1,146,892</u> |
| Expenses – Personnel            |                    |
| Management Salaries             | 123,252            |
| Hourly Labor                    | 280,665            |
| Cleaning Services               | 1,067              |
| Payroll Taxes & Insurance       | 69,425             |
| Employee Benefits               | <u>10,823</u>      |
| Total Personnel                 | 485,233            |
| Expenses – Operating            |                    |
| Smallwares                      | 10,009             |
| Paper                           | 23,093             |
| Cleaning Supplies               | 14,499             |
| Towels & Laundry                | 10,455             |
| Telephone                       | 2,986              |
| Online Services                 | 7,079              |
| Utilities                       | 47,849             |
| Uniforms                        | 3,280              |
| Maint. & Repair – Bldg. & Equip | 54,181             |
| Equipment - Replace             | 25,874             |
| HuHot Royalty Fee <sup>a</sup>  | 86,791             |
| Taxes & Licenses                | 10,119             |
| Liability Insurance             | 4,951              |
| Bank Charges                    | 28,704             |
| Training                        | 5,067              |
| Shipping                        | 1,158              |
| Misc                            | <u>3,956</u>       |

|                                       |                 |
|---------------------------------------|-----------------|
| Expenses – Advertising                |                 |
| Online                                | 3,052           |
| Printed Media                         | 2,882           |
| Direct Mail                           | 5,593           |
| HuHot Marketing Fund                  | 7,758           |
| Misc                                  | 3,396           |
| Adjust to 3% Requirement <sup>b</sup> | <u>29,394</u>   |
| Total Advertising Expenses            | 52,075          |
| Expenses – Occupancy                  |                 |
| Space Rental                          | 135,587         |
| NNN                                   | <u>42,835</u>   |
| Total Occupancy Expenses              | <u>178,422</u>  |
| Net Income                            | <u>\$91,111</u> |

<sup>a</sup> Company-owned Restaurants do not necessarily pay the same royalty fees that franchisees pay. This Madison Restaurant pays 4% royalty, but we are showing the royalty at 5%, since that is the percentage new franchisees pay.

<sup>b</sup> This Madison Restaurant actually spent less than 3% on marketing, but we adjusted the marketing expense to equal 3%, which is what new franchisees are required to spend.

The following material assumptions and bases for the un-audited sales information and food and labor cost percentages apply to the information for the Madison, Wisconsin location only:

1. The “gross revenues” reported above correspond to the definition of “gross revenues” in the HuHot Mongolian Grills, L.L.C. Franchise Agreement attached to this franchise disclosure document. “Gross revenues” does not include sales taxes, customer refunds or promotional rebates paid or given by HuHot Mongolian Grill.

2. Costs of Goods Sold figures include sales taxes and shipping, of all food, ingredients, soft and alcoholic beverages, paper goods and logo-ed items as t-shirts and caps and other items sold at retail in the restaurant.

3. The Net Income reported above is only related to restaurant level activities. Mongolian Grill Restaurant Operating Company, LLC incurs office salaries for employees performing supervisory, bookkeeping and other administrative functions for the HuHot Mongolian Grill Restaurants. The labor costs associated with these employees are not included in the costs from which the labor cost percentage is calculated for HuHot Mongolian Grill. In your

HuHot franchised Restaurant, those functions could be performed by you, a manager or outside accounting or bookkeeping service. If these functions are not performed by you or by someone else whose salary is already included in your expenses, you will incur additional costs to have these function performed.

4. As of December 31, 2017, Mongolian Grill Restaurant Operating Company, LLC also owned 12 other HuHot Mongolian Grill restaurants located in Colorado, Indiana, Utah, and Wisconsin.

5. Of the 13 company-owned Restaurants open for the entire year of 2017, 5, or 38% attained Madison's Total Gross Revenues of \$1,551,431 in 2017. Of the 13 company-owned Restaurants, 5, or 38% attained Madison's Gross Profit of \$1,146,892 in 2017. Of the 13 company-owned Restaurants, 9, or 69% attained Madison's Net Income of \$91,111 in 2017.

6. Of the 7 affiliate-owned Restaurants open for the entire year of 2017, 3, or 43% attained the Total Gross Revenues of \$1,551,431 in 2017. Of the 7 affiliate-owned Restaurants, 5, or 71% attained Madison's Gross Profit of \$1,146,892 in 2017. Of the 7 affiliate-owned Restaurants, 7, or 100% attained Madison's Net Income of \$91,111 in 2017.

7. Of the 37 franchisee-owned Restaurants open for the entire year of 2017, 21, or 55% attained the Total Gross Revenues of \$1,551,431 in 2017. We do not have the Gross Profit or Net Income figures for franchisee-owned Restaurants.

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On this page are the ranges of actual gross revenues in 2017 of 36 franchised and 22 affiliate-owned HuHot Restaurants. Three HuHot Restaurants opened in 2017 and they are not included in this data. One HuHot Restaurant closed in 2017 and it is not included in this data.

**Ranges of Annual Gross Revenues, Number and Percentages of Restaurants Attaining Range, Average, Median, Highest and Lowest Annual Gross Revenues in 2017 of 58 HuHot Restaurants (36 Franchised and 22 Affiliate-Owned)**

| Column 1<br>Annual Gross Revenues | Column 2<br># Franchisees<br>Within Range | Column 3<br># of Franchised<br>Units<br>Attaining Range | Column 4<br>% of Franchised<br>Units<br>Attaining Range | Column 5<br># Affiliate-Owned<br>Units within Range | Column 6<br># of Affiliate-<br>owned Units<br>Attaining Range | Column 7<br>% of Affiliate-<br>owned Units<br>Attaining Range |
|-----------------------------------|-------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|
| \$3,000,000 and over              | 2                                         | 2                                                       | 6%                                                      | 0                                                   | 0                                                             | 0%                                                            |
| \$2,500,000 - 2,999,999           | 4                                         | 6                                                       | 17%                                                     | 0                                                   | 0                                                             | 0%                                                            |
| \$2,000,000 - 2,500,000           | 7                                         | 13                                                      | 36%                                                     | 2                                                   | 2                                                             | 9%                                                            |
| \$1,500,000 - 1,999,999           | 10                                        | 23                                                      | 64%                                                     | 5                                                   | 7                                                             | 32%                                                           |
| \$1,000,000 - 1,499,999           | 10                                        | 33                                                      | 92%                                                     | 11                                                  | 18                                                            | 82%                                                           |
| \$500,000 - 999,999               | 3                                         | 36                                                      | 100%                                                    | 4                                                   | 22                                                            | 100%                                                          |
| Total Units                       | 36                                        |                                                         |                                                         | 22                                                  |                                                               |                                                               |
| Average Sales                     | \$1,724,023 <sup>1</sup>                  | 16 attained<br>average                                  | 44% attained<br>average                                 | \$1,467,824 <sup>2</sup>                            | 12 attained<br>average                                        | 55% attained<br>average                                       |
| Median Sales                      | \$1,600,423 <sup>3</sup>                  | 18 attained<br>median                                   | 50% attained<br>median                                  | \$1,386,798 <sup>4</sup>                            | 13 attained<br>median                                         | 59% attained<br>median                                        |
| Highest Sales                     | \$3,267,303 <sup>5</sup>                  |                                                         |                                                         | \$2,379,771 <sup>6</sup>                            |                                                               |                                                               |
| Lowest Sales                      | \$643,766 <sup>7</sup>                    |                                                         |                                                         | \$721,891 <sup>8</sup>                              |                                                               |                                                               |

<sup>1</sup> Average Gross Revenues of the 36 franchised stores open all of 2017.

<sup>2</sup> Average Gross Revenues of the 20 affiliate-owned stores open all of 2017.

<sup>3</sup> Median Gross Revenues of the 36 franchised stores open all of 2017.

<sup>4</sup> Median Gross Revenues of the 20 affiliate-owned stores open all of 2017.

<sup>5</sup> Highest Gross Revenues of the 36 franchised stores open all of 2017.

<sup>6</sup> Highest Gross Revenues of the 20 affiliate-owned stores open all of 2017.

<sup>7</sup> Lowest Gross Revenues of the 36 franchised stores open all of 2017.

<sup>8</sup> Lowest Gross Revenues of the 20 affiliate-owned stores open all of 2017.

Columns 2, 3, and 4 disclose franchisee-owned restaurants; Columns 5, 6 and 7 disclose affiliate-owned restaurants. Annual Gross Revenues based on the 12 month data through December 31, 2017. All of these HuHot restaurants offer substantially the same products and services as will be offered from future franchised restaurants. Other than the ownership of the restaurants, there were no material differences in the franchised outlets from the affiliate-owned outlets.

Company-owned and affiliate-owned restaurants do not necessarily pay the same royalty fees that franchisees pay.

### **Material Bases and Assumptions**

The Restaurants represented in the Gross Revenues Table above are substantially similar to the concept being offered to you.

The Gross Revenues are NOT net of costs of goods sold or other operating expenses. We have not provided information regarding costs and expenses because we do not regularly collect that data from franchisees and do not operate enough company-owned restaurants from which we could present reliable figures.

The Gross Revenue figures in this Item 19 do not reflect the cost of sales, operating expenses, or other costs or expenses that must be deducted from the gross revenues figures to obtain your net income or profit. You will incur at least the following expenses, and possibly more: inventory, labor, occupancy costs, pre-opening expenses, depreciation and amortization, taxes, insurance, operating expenses, royalty fees to us, advertising fees to us, other fees to us in the Franchise Agreement, professional fees, bank charges, telephone, repairs. All of your expenses will affect the operating profit, net income and/or cash flow of your HuHot Restaurant and should be carefully considered and evaluated.

You should conduct an independent investigation of the costs and expenses you will incur in operating your franchised business. Franchisees or former franchisees, listed in the Franchise Disclosure Document, may be one source of this information.

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

Prospective franchisees or sellers of franchises should be advised that no Certified Public Accountant has audited these figures or expressed his/her opinion with regard to their content of form. The amounts have not been audited or reviewed for reasonableness by independent auditors.

The results shown by the Affiliate-owned Restaurants may be positively influenced as a result of the owners' experience.

Restaurants for which financial performance representations are disclosed in this Item 19 may not have necessarily been profitable.

Written substantiation of the data we used in preparing this statement will be made available upon reasonable request.

Other than the preceding financial performance representation, HuHot Mongolian Grills, L.L.C. does not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Linda Vap, 223 East

Main St., Missoula, Montana 59802, telephone: (406) 251-4303, the Federal Trade Commission, and the appropriate state regulatory agencies.

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**EXHIBIT B TO FRANCHISE DISCLOSURE DOCUMENT  
HUHOT MONGOLIAN GRILL**

**DISCLOSURE ACKNOWLEDGEMENT STATEMENT**

HuHot Mongolian Grills, LLC ("we" or "us"), through the use of this Disclosure Acknowledgment Statement, wishes to ascertain that \_\_\_\_\_ ("you") fully understand that your execution of a Franchise Agreement for a franchise to own and operate a HuHot Restaurant is a business decision, complete with associated risks, and that it is our policy to verify that you are not relying upon any oral, written or visual statements, representations, promises or assurances relating to a HuHot Restaurant which we have not authorized.

**You make the following representations to us, and we rely on them in granting you a franchise. If any statement is not correct, or if you are aware of exceptions to them, note them after No. 8 below.**

1. You recognize and understand that business risks, which exist in connection with the ownership, development and operation of any business, make the success or failure of the franchise subject to many variables, including your skills and abilities; competition; interest rates; the economy; inflation; Restaurant location; operation, labor and supply costs; lease terms and costs, and the marketplace. You acknowledge that you have conducted an independent investigation of the business venture contemplated by the Franchise Agreement and recognize that the success of the venture involves substantial business risk and will be dependent primarily on your ability as an independent businessman. You hereby acknowledge your willingness to undertake these business risks.

2. You acknowledge that you received the HuHot Franchise Disclosure Document ("FDD") at least 14 calendar days prior to the date you executed the Franchise Agreement, and you received the final form of Franchise Agreement at least 7 calendar days prior to the date you executed said Agreement. You acknowledge that you have received, had the opportunity personally to read, review and understand the FDD and Franchise Agreement and its attachments. You acknowledge that we have permitted you ample time and opportunity to consult with advisors of your own choosing about the potential benefits and risks associated with operating a HuHot Restaurant and entering into a HuHot Restaurant Franchise Agreement and have encouraged you to do so. You also acknowledge that you have received and read and understand the Franchise Disclosure Document we prepared, and that we have not made any oral, written or visual claims, representations, promises, agreements, contracts, commitments, understandings or statements which contradict or are inconsistent with, or are not contained in such Franchise Disclosure Document.

3. You agree and state that the decision to enter into this business risk is in no manner predicated upon any oral, written or visual representations, assurances, warranties, guarantees or promises made by us or any of our directors, officers, employees or agents

(including any franchise broker) as to the likelihood of success of the Franchise.

4. We expressly disclaim the making of, and you acknowledge that you have not received or relied upon, any information, representations, assurances, warranties, guarantees or promises made by us or any of our directors, officers, employees or agents (including any franchise broker) concerning the actual, average, projected or forecasted franchise sales, revenues, profits, earnings or likelihood of success that you might expect to achieve from operating a HuHot Restaurant, other than any such statements made in our Franchise Disclosure Document.

5. We expressly disclaim the making of, and you acknowledge that you have not received or relied upon, any promises, agreements, contracts, commitments, representations, understandings, "side deals" or any other assurances, expressed or implied, orally or otherwise, made to or with you with respect to any matter concerning advertising, marketing, television, radio or other media support, site location, marketing penetration, training, operating and support assistance or other services, other than any such statements made in our Franchise Disclosure Document.

6. You acknowledge that you have independently evaluated and investigated the Restaurant site and the lease or purchase agreement for the Restaurant site. You acknowledge that you bear responsibility for selecting the Restaurant site and negotiating the terms and conditions of your lease, sublease or purchase agreement for the Restaurant site.

7. You acknowledge that, although we or our designated architect will provide you with the basic drawings and specifications for the Restaurant, will specify certain furniture, fixtures and equipment for the Restaurant, and will maintain certain rights of review and/or approval under our Franchise Agreement with you, we have not made, and you have not received or relied upon any warranty from us concerning the Restaurant or the drawings, specifications, furniture, fixtures and equipment. You acknowledge that, except as may otherwise be provided in the Franchise Agreement, it is your sole responsibility to insure that the Restaurant's construction or conversion remodeling complies with any and all laws, codes or regulations. You acknowledge that you are solely responsible for and we will have no liability or obligation in connection with the plans or the construction or conversion remodeling of the Restaurant except as stated in the Franchise Agreement.

8. You acknowledge that the initial investment costs in Item 7 of the Franchise Disclosure Document are based on our current design concept, which is always subject to change, and that if we change the design concept after you sign your franchise agreement, your investment costs may be affected. You also acknowledge that such investment costs are based on limited information currently available to us and that your investment costs may vary depending on many factors, including, but not limited to, geographic area, labor costs, competitive circumstances, landlord's requirements, size and condition of premises, and local building code requirements.

9. You acknowledge that you were advised, prior to receiving the Franchise Disclosure Document, of the various ways you could be furnished the Franchise Disclosure Document.

10. You acknowledge that you have received the receipt page with the names completely filled in of all the franchise sellers that were involved in your purchase of the franchise.

11. You acknowledge that depending on your location, your expenses in operating a HuHot Restaurant may be substantially higher than those shown in the financial performance representations in Item 19 of the Franchise Disclosure Document,

**THE FOLLOWING CORRECTIONS AND/OR EXCEPTIONS TO THE ABOVE STATEMENTS ARE AS FOLLOWS (IF NO CORRECTION OR EXCEPTIONS, WRITE "NONE" AND INITIAL):**

Description or Write "None"

Initial

\_\_\_\_\_  
(Attach additional sheets if necessary)

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_.

**HuHot Mongolian Grills, L.L.C.**  
a Montana limited liability company

**FRANCHISEE**

By: \_\_\_\_\_  
Andrew Vap

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_