

FRANCHISE DISCLOSURE DOCUMENT



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The franchised business is a retail bakery cafe that sells an assortment of kolaches and complementary menu items under the Kolache Factory® trade name.

The total investment necessary to begin operation of a single new Kolache Factory franchise ranges from \$476,900 to \$829,400. This includes \$44,900 to \$47,400 that must be paid to us or an affiliate. The total investment necessary to operate under a development agreement that requires you to develop, open and operate more than one Kolache Factory Store ranges from \$500,400 to \$896,900. This includes \$20,000 to \$62,500 that must be paid to us or an affiliate.

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

You may wish to receive your Disclosure Document in another format that is more convenient for you, including an electronic version of your Disclosure Document. If so, you may wish to print or download the Disclosure Document for future reference. To obtain a paper copy or the availability of disclosures in different formats, contact Vicki Kozel at (281) 829-6188.

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

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

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

The Date of Issuance of this Disclosure Document is June 24, 2022.

How to Use This Franchise Disclosure Document

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

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 and Exhibits F and G.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit A includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only Kolache Factory business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be a Kolache Factory franchisee?	Item 20 and Exhibits F and G list current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising *Generally*

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

Operating restrictions. The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

Competition from franchisor. Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit H.

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

Special Risks to Consider About *This* Franchise

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

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Texas. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in Texas than in your own state.
2. **Spousal Personal Guaranty.** Your spouse must also sign a personal guarantee making your spouse individually liable for your financial obligations under the agreement. The guarantee will place your spouse's marital and personal assets at risk if your franchise fails.

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

TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
1. THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES	1
2. BUSINESS EXPERIENCE	3
3. LITIGATION	3
4. BANKRUPTCY	3
5. INITIAL FEES	3
6. OTHER FEES	4
7. ESTIMATES OF INITIAL INVESTMENT	6
8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES	9
9. FRANCHISEE'S OBLIGATIONS	12
10. FINANCING	13
11. FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEM AND TRAINING	13
12. TERRITORY	21
13. TRADEMARKS	24
14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION	25
15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS	25
16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL	26
17. RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION	27
18. PUBLIC FIGURES	31
19. FINANCIAL PERFORMANCE REPRESENTATIONS	31
20. OUTLETS AND FRANCHISEE INFORMATION	37
21. FINANCIAL STATEMENTS	40
22. CONTRACTS	41
23. RECEIPT	41

STATE SPECIFIC APPENDIX TO DISCLOSURE DOCUMENT

EXHIBIT A	FINANCIAL STATEMENTS
EXHIBIT B	FRANCHISE AGREEMENT (including State Specific Amendments)
EXHIBIT C	DEVELOPMENT AGREEMENT (including State Specific Amendments)
EXHIBIT D	LOYALTY AND GIFT CARD PARTICIPATION AGREEMENT
EXHIBIT E	TABLE OF CONTENTS TO OPERATIONS MANUAL
EXHIBIT F	LIST OF CURRENT FRANCHISEES
EXHIBIT G	LIST OF FRANCHISEES WHO HAVE LEFT THE SYSTEM
EXHIBIT H	STATE ADMINISTRATORS
EXHIBIT I	AGENTS FOR SERVICE OF PROCESS
EXHIBIT J	CURRENT SAMPLE FORM OF GENERAL RELEASE

STATE EFFECTIVE DATES

RECEIPTS

**KF FRANCHISING, LTD.
FRANCHISE DISCLOSURE DOCUMENT
FOR
KOLACHE FACTORY FRANCHISES**

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

KF Franchising, Ltd., Parents, Predecessors and Affiliates. KF Franchising, Ltd. offers the franchises we describe in this Disclosure Document. For simplicity, we refer to KF Franchising, Ltd. by a first person plural pronoun (“we”, “us” and “our”). “You” means the individual or business entity (corporation, partnership, etc.) that buys a franchise. Except for sole proprietorships, “you” does not include a business entity’s owners.

We are a Texas limited partnership that was formed on November 29, 2000, with our home office at 23240 Westheimer Parkway, Suite A, Katy, Texas 77494. The name of our sole general partner is Kolache Factory Management, L.L.C., a Texas limited liability company. Kolache Factory Management, L.L.C. was formed in November 2000 to be our general partner. It conducts no other business activities and has never engaged in franchising. We conduct business only under our partnership name; we do not use a trade name. Our agents for service of process are identified in Exhibit I to this Disclosure Document.

Kolache Factory, Inc., an affiliated company, developed the Kolache Factory business system in 1981 and opened the first Kolache Factory bakery in March 1982. The address of Kolache Factory, Inc.’s principal office is the same as ours. We do not have any parents, predecessors or other affiliates.

Our Business and Description of the Franchise. We were organized in November 2000 to sell and service Kolache Factory franchises. Accordingly, we have been offering Kolache Factory bakery cafes since November 2000. Our only business is the sale and servicing of Kolache Factory franchises. We do not own or operate any Kolache Factory franchises or any other franchises nor have we offered franchises in any other line of business.

Kolache Factory bakery cafes (“Stores”) are distinctive retail outlets that operate under the Kolache Factory® trade name. They sell our proprietary brand of kolaches, which they make fresh daily from our proprietary dough and from various fillings, including meat, cheese and fruit. Stores may also serve coffee, soft drinks, chips and other snack foods.

A Kolache Factory franchise entitles you to operate one Store at an approved location. You must operate your Store under the business system and operating procedures we developed, as described in our Operations Manual. You must use our proprietary brand of kolache dough in all your kolaches, and you must follow our proprietary recipes in making your kolaches. You may only sell the menu items that we specify or approve.

Stores are designed to be located in shopping centers, malls and free-standing buildings. They typically occupy from 1,800 to 2,000 or more square feet of leased retail space. Smaller footprint stores generally provide limited customer seating and are designed for customers who purchase our products for off-premises consumption. We also encourage our franchisees to offer catering services for parties, school functions, fairs and similar events.

If you are an experienced multi-unit operator of quick service restaurants, we may, at our discretion, allow you to apply to develop more than one Store under a development agreement (the “Development Agreement”) (see Exhibit C to this Disclosure Document). The Development Agreement provides you with the right to purchase multi-unit development rights in a larger territory for two or more Stores. We normally only grant multi-unit development rights to developers who are willing to develop at least three Stores. If

you desire to develop and operate only one Store, you will sign a Franchise Agreement (see Exhibit A to this Disclosure Document). If you sign the Development Agreement, you will sign the form of Franchise Agreement attached to the Disclosure Document for your first Store, but you will be required to sign the then-current form of Franchise Agreement being offered at the time you are ready to sign your second and other additional Franchise Agreements.

Description of the Market and Competition. Kolaches appeal primarily to adult consumers, ages 25 to 49. Many of our customers consider kolaches breakfast food, and approximately 80% of a typical Store's sales occur between the hours of 6:00 and 10:00 in the morning. Stores compete with quick service restaurants and convenience stores that sell carry-out breakfast sandwiches and pastries and, to a lesser degree, with donut shops. A Store's sales do not experience significant seasonal fluctuations.

Regulations Specific to the Industry. Stores are subject to various laws that impact the operation of retail businesses generally, but we are aware of only one type of special industry regulation that may apply to your Store. This regulation governs the conditions under which "ready-to-eat potentially hazardous food" may remain on display at room temperature before it must be sold or discarded. Section 3-501.19 of the 1997 and subsequent Federal Food and Drug Administration (FDA) Food Codes allows food such as kolaches to be displayed at room temperature for up to four hours using Time Only as the Public Health Control. We use a monitored 4-Hour Bake Plan to ensure compliance with FDA regulations. State and municipal health authorities generally follow the federal guidelines, but some authorities may interpret the standards differently or more stringently. In addition, the FDA requires certain restaurants and other retail establishments to disclose to consumers, on the menu, certain nutritional information regarding menu items.

We strongly recommend that you check your state and local Food Codes for consistency with the wording and intent of this section of the FDA Food Code. We cannot guarantee that your state and local health departments use a Time Only standard or that they interpret their Time Only regulations in a manner consistent with FDA regulations. Furthermore, we cannot guarantee that your state and local health departments will approve our monitored Bake Plan, even if their Food Codes allow Time Only as the Public Health Control. We recommend that you determine how these codes and their interpretation by state, county and local authorities will affect the operation of a Store before you sign a lease.

In addition to the FDA laws noted above, many of the laws that apply to business generally, like the Americans with Disabilities Act, federal wage and hour laws, the Affordable Care Act of 2010 and the Occupation, Health and Safety Act, also apply to restaurants.

You should also be aware of the state and federal laws governing the sale, administration and abandonment of gift and loyalty cards.

Prior Business Experience. Kolache Factory, Inc. opened the first Store in March 1982 and now operates 25 Stores of its own. It began offering franchises in 1997 and had sold franchises for five Stores by the time we were organized. Neither we nor Kolache Factory, Inc. has offered franchises in other lines of business. Except for Kolache Factory, Inc., we do not have any affiliates.

ITEM 2 BUSINESS EXPERIENCE

John H. Banks

Managing Partner

Mr. Banks serves as one of our managing partners, a position he has held since our formation in November 2000. He founded Kolache Factory, Inc. in March 1982 and has served as its President since that time.

Dawn Nielsen

Chief Operating Officer

Mrs. Nielsen has been our Chief Operating Officer since December 2017. Mrs. Nielsen served as our Vice President from 2006 to November 2017.

Aaron Nielsen

Chief Development Officer

Mr. Nielsen has been our Chief Development Officer since December 2017. Mr. Nielsen served as our Franchise Sales Director from November 2003 to November 2017.

Hermann Gruebler

Training Director

Mr. Gruebler serves as our Training Director, a position he has held since our formation in November 2000. Mr. Gruebler is also a pastry chef and received his pastry chef certification in 1989 from Houston Community College. In addition to training franchisees and store managers, Mr. Gruebler supervises multiple company-owned Stores and all franchised Stores.

ITEM 3 LITIGATION

No litigation is required to be disclosed in this item.

ITEM 4 BANKRUPTCY

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

ITEM 5 INITIAL FEES

The franchise fee is \$44,900, is paid when you sign your Franchise Agreement and is not refundable under any circumstances.

If we allow you to develop more than one Store, you must sign a Development Agreement. You must pay us a development fee equal to \$20,000 times the total number of Stores we allow you to develop. You pay the development fee in full when you sign the Development Agreement. Your initial franchise fee for each Store you develop is still \$44,900, but we apply \$20,000 of the development fee as a credit against the initial franchise fee for a Store when you sign the Franchise Agreement for that Store. Otherwise, the development fee is not refundable.

We have identified several architects, general contractors, equipment suppliers and suppliers of other goods and services who have experience in designing, constructing and equipping Stores and who have done exemplary work for us. Because we know and trust their work and do not need to supervise them closely, we have designated or approved them as suppliers to our franchisees. You may choose your own

architect and/or contractor (See Item 8), but if you do, you must first secure our approval and, to compensate us for the extra time and effort we spend educating them about our procedures, we may require to you to pay our then current management services fee (currently \$2,500 per review) plus an amount to reimburse us for salaries, travel, lodging and other out-of-pocket expenses for our personnel who perform the work. If you unilaterally decide to use your own unapproved architect or contractor, we will charge you our then current management services fee and an amount to fully reimburse us for all salaries, travel, lodging and other out-of-pocket expenses for our designated personnel to supervise and review the unapproved architect's or contractor's work, which could include multiple reviews of draft plans and weekly on-site inspections. The management service fees and cost reimbursement is payable per architect, contractor or supplier you submit for approval or unilaterally decide to use on your own. These fees, if applicable, are payable before we will permit you to open your Store. These fees are not refundable.

If you purchase an existing Store franchise, you do not pay an initial franchise fee. Instead, we receive a \$6,000 transfer fee.

You are not required to pay us any other fees or to buy or lease any goods or services from us as a condition to acquiring a Store franchise. The fees described above are uniform for all franchisees.

ITEM 6 OTHER FEES

Name of Fee ⁽¹⁾	Amount	Due Date	Remarks
Royalty	6% of Gross Sales ⁽²⁾	Weekly by automatic debit to your bank account on Monday of each week with respect to Gross Sales for the preceding week	Gross Sales includes all revenues your Store receives (including catering revenues), but excludes sales tax, coupon credits and employee discounts.
Advertising Fund Contributions	3% of Gross Sales	The same time as the royalty	
Advertising Cooperative Contributions	Set by Co-op, but not less than 1% of Gross Sales	To be determined by co-op advertising agreement	When two or more owners operate Stores in the same market, we may instruct them to form an advertising co-op.
Supplemental and Refresher Training	Currently \$350 per day, plus transportation and expenses	Within 15 days after billing	We do not charge tuition for the initial training we provide to you or the general manager of your first Store. For any additional Store, we will provide training without tuition charge for one of your managerial-level employees. You must train all other staff members of any additional Stores you open.
Technical Service and Support Fees	As provided in our Technical Service and Support Policy, which may change occasionally	On receipt of invoice for services	See Note 3.
Interest on Late Payments	18% per annum, or the highest lawful rate of interest permitted by applicable Texas and federal law, whichever is lower. The amount of interest charged will not exceed that allowed by state law.	On demand	Interest accrues from the day after the due date through the date of payment. Note: 10% per annum is the highest interest rate allowed in California.

Name of Fee⁽¹⁾	Amount	Due Date	Remarks
Internet Development and Maintenance Fee	Then current amount, currently \$250 per quarter	Quarterly	This obligation relates to Kolache Factory's Internet presence. We may modify this fee from time to time to reflect our then current costs.
Intranet Development and Maintenance Fee	Then current amount, currently \$150 per quarter	Quarterly	This obligation relates to the Kolache Factory Intranet. We may modify this fee from time to time to reflect our then current costs.
Software Services Fee	Then current amount, currently \$240 per quarter	Quarterly	This obligation relates to software licenses and maintenance fees. We may modify this fee from time to time to reflect our then current costs.
Insurance ⁽⁴⁾	As provided in the Operations Manual; we currently require workers compensation insurance, general liability insurance of \$1 million per occurrence, \$2 million aggregate, and a \$2 million umbrella	Before your Store opens and before each policy renewal date	You must buy your insurance from a company with a Best's rating of A/VIII or better.
Transfer Fee	\$6,000	Time of transfer	
Management Services Fees	\$2,500 plus reimbursement for our costs associated with the review.	For consideration of approval of alternate architect, contractor, or other vendor or supplier and/or unilateral use of an unapproved architect or contractor.	This fee (and our related costs) may be payable for each review for each alternative architect, contractor, or other vendor or supplier you request us to review, or that we have to supervise whether or not approved by us. Our costs will vary depending upon the time it takes us.
Indemnification	Unlimited	On demand by us	You must indemnify us and our affiliates from liability for any claim based on or arising from your operation of your Store or your use of the Kolache Factory Website or Intranet.
Annual Franchisee Seminar Fees	Will vary year to year depending on whether we cover a portion of the costs through the Ad Fund.	On demand by us as a condition to attending our annual Franchisee Seminar.	You must send a representative to our annual Franchisee Seminar. We may use monies from the Ad Fund to cover all or a portion of the costs of one of your representatives, but you are responsible for the representative's costs for attendance that we do not cover plus any additional fee we may charge for attendance. You may send additional representatives at your own cost.
Audit Fees	Estimated at \$5,000 to \$20,000 ⁵	On receipt of invoice	Includes cost of audit, travel, meal and lodging expenses of auditor. You pay an audit fee only if you have understated any year's annual Gross Sales by more than 1%.

Notes:

(1) Except for contributions to an advertising co-operative and insurance premiums, you pay all fees and other continuing payments to us. We refund no fees or other continuing payments. The table shows the fees that apply under our current Franchise Agreement. We may charge different fees, higher or lower, under future generations of the Franchise Agreement.

(2) The Franchise Agreement defines Gross Sales as “the aggregate revenues the Store receives from the sale of, or the provision of services with respect to, food, beverages, other menu items and other merchandise, whether for cash or on credit, less applicable sales taxes Franchisee collects and remits, and valid coupon credits and employee discounts deducted from revenues initially recorded as Gross Sales, but without deduction of any other costs or expenses whatsoever.”

(3) We currently offer six month’s free support for the POS system and communication network, and two months’ free support for the inventory control system. If you require on-site assistance or assistance after the free support periods expire, you must reimburse us for our travel and other out-of-pocket expenses and a day rate of \$1,000 and an hourly rate of \$125. Our service fees are subject to change without notice by amendment to our Technical Service and Support Policy.

(4) Neither we nor any of our affiliates sells insurance.

(5) We have never performed an audit and therefore have no historical reference with respect to the costs associated in performing an audit. However, we expect the costs of an audit will range from \$5,000 to \$20,000.

ITEM 7
ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT FOR A STORE

Type of Expenditure	Actual or Estimated Amounts⁽¹⁾	Method of Payment	When Due	To Whom Payment is to be Made
Initial Franchise Fee ⁽²⁾	\$44,900	Lump Sum	On signing the Franchise Agreement	Us
Real Estate Acquisition and/or Lease Costs	\$45,000 to \$120,000 See Note 3	As agreed	As incurred	Contractors, Suppliers
Rent, Security and Utility Deposits ^(3a)	\$7,000- \$20,000	Lump Sum	On signing the Lease Agreement	Landlord and utility companies
Architectural, Engineering, Permitting and Legal Fees (including management services fee)	\$18,000 - \$27,500	Per contract	Per contract	Architects and attorneys
Leasehold Improvements, Construction ⁽⁴⁾	\$150,000 - \$270,000	Per contract terms	During construction and at completion	General contractor
Cabinetry & Millwork	\$28,000 - \$35,000 (+ fuel surcharges)	Per contract	Per contract terms	Approved suppliers
Equipment, Furniture, & POS System ⁽⁵⁾	\$130,000 - \$175,000	Per contract terms	Per contract terms	Approved suppliers
Initial Marketing Expenses ⁽⁶⁾	\$3,000 - \$5,000	Before opening and per contract terms	Per contract terms	Approved suppliers
Grand Opening Expense ⁽⁷⁾	\$3,000 - \$10,000	As incurred	Per contract terms	Approved suppliers
Signage ⁽⁸⁾	\$5,000 - \$15,000	Per contract terms	Before opening	Approved suppliers

Type of Expenditure	Actual or Estimated Amounts ⁽¹⁾	Method of Payment	When Due	To Whom Payment is to be Made
Manager and Personnel Training ⁽⁹⁾	\$3,000 - \$22,000	As incurred	As incurred	Varies
Initial Inventory (Food & Paper Goods)	\$10,000 - \$20,000	Per vendor terms	Before opening	Designated and approved suppliers, including Kolache Factory, Inc.
Office Supplies, Uniforms, Freight, Miscellaneous Expenses & Gift Cards	\$5,000 - \$15,000	Per contract	Before opening	Approved suppliers, including Kolache Factory, Inc.
Additional Funds/Working Capital – 3 months ⁽¹⁰⁾	\$25,000 - \$50,000	As incurred	As incurred	Varies
Total for a single Store franchise⁽²⁾⁽¹¹⁾	\$476,900 – \$829,400			

****See notes following next chart.

YOUR ESTIMATED INITIAL INVESTMENT FOR A DEVELOPMENT AGREEMENT

Type of Expenditure	Actual or Estimated Amounts ⁽¹⁾	Method of Payment	When Due	To Whom Payment is to be Made
Development Fee ⁽¹²⁾	\$20,000 - \$60,000	Lump Sum	On signing the Development Agreement (credited on signing each Franchise Agreement)	Us
Development Agreement Training ⁽¹³⁾	\$0 - \$2,500	As incurred	As Arranged	As Necessary
Additional Funds – 3 months ⁽¹⁴⁾	\$3,500 - \$5,000	As incurred	As Arranged	As Necessary
Total for a multiple Stores franchise under the Development Agreement	\$500,400 - \$896,900			

ENDNOTES FOR INVESTMENT SUMMARIES

⁽¹⁾ The amounts shown for the initial franchise fee are actual; all other amounts represent estimates, based on experiences our franchisees have reported.

⁽²⁾ See Item 5 for the amount of the initial franchise fee. The estimate assumes this is the first and only franchise. The amounts do not include any management fees for review of alternative vendors or suppliers.

⁽³⁾ We expect you will lease the real estate for your Store. Purchasing the real estate for your Store will make your total initial investment substantially higher. The cost of leasing or purchasing real estate will vary, depending on location and other factors such as whether there is an existing structure on the site. The low amount for real estate contained in the chart is based on you signing a real estate lease to build out an existing structure with commencement of rent on opening and paid through the first three months' of operations (basing rent at approximately \$15,000 to \$17,000 per month). The high amount for real estate in the chart is based on your purchasing land between 0.80 and 1.5 acres at a one-time cost ranging from \$500,000 to \$1,200,000. Preferred locations for the Stores are prominent locations in heavily-populated suburban areas and/or "strip" shopping centers that have both significant household counts and significant

daytime and nighttime business (typically retail and/or office), and in markets that are the center of a wide-area of trading population.

(3a) Assumes a lease deposit equal to one month's rent. Utility deposits vary from locale to locale.

(4) If you do not own a bakery café site, you must purchase or lease the building for your Store premises. Stores are typically located in strip shopping centers or shopping malls and range in size from 1,800 to 2,000 or more square feet. Smaller footprint stores generally do not include a drive-thru or espresso bar, and provide limited seating. Any location you lease will have to be built out or remodeled to our specifications. The estimates presented in the table for leasehold improvements do not include a drive-thru, or full-service espresso bar and the low estimate contemplates a landlord finish-out allowance of \$13,000 to \$20,000. The allowance, if any, that you negotiate with your landlord may be higher or lower. Mall, free-standing and union labor locations are typically more expensive to build-out than strip center locations, so leasehold improvement expenses in these locations may be higher.

(5) All equipment must be purchased new and must be chosen from the list of brands we have approved. All Kitchen equipment must be NSF certified. Failure to purchase the specified equipment may delay your opening until the equipment is replaced with our specifications. The estimate does not include espresso bar or drive-thru equipment.

(6) The Initial Marketing Expenses currently consists of business card artwork, printed cards, menu art and menus, an opening inventory of gift cards and artwork, window posters, "coming soon", "grand opening" and "now open" advertisements in a local newspaper, "Grand Opening", "Coming Soon" and "Now Open" banners, "Grand Opening" flyers, 15 and 30 second "Grand Opening" radio scripts, wall posters, Val-Pak® or equivalent mailer for two zones in your Trade Area, counter mats and gator boards. Prices may vary depending upon vendor and quantities.

(7) Grand Opening Expenses may include items such as print advertising (flyers, Valpak, or other mailers that drive business to your store on the event date), any giveaway items (spin wheel, raffle, gift cards, food and entertainment), and paid social media posts, radio/television promoting Grand Opening event.

(8) Municipal code and lease restrictions on signage may increase the cost of your signs. The estimate is for one exterior sign, and does not include drive-thru menu boards.

(9) You must hire your personnel before they attend training. You must also carry worker's compensation insurance in compliance with the Franchise Agreement (see Item 11). The amounts assume salary, travel, lodging, meal and incidental expenses for yourself and two managerial-level individuals to attend our required training program, but the costs may differ if we are required to hold a portion of the initial training online due to any applicable continuing COVID-19 protocols.

(10) These figures assume you will need the indicated amounts for rent, utilities, wages, inventory purchases, employee training, insurance premiums, debt service, legal and accounting fees and other expenses during the initial phase of your Store's operation, which we estimate to be three months. You may incur additional expenses in starting up your Store.

(11) We have relied on our 30 plus years of experience in developing Stores in arriving at our cost estimates. The estimates are, however, only estimates that, by their nature, may periodically change and may vary from location to location. You should carefully review these figures and compare them with information you obtain from local sources, and then discuss your findings with a business or legal advisor before you make a decision to purchase a Kolache Factory franchise.

⁽¹²⁾ Development fees are only applicable if you sign a Development Agreement that provides you the right to develop multiple Stores. See Item 5 for the schedule of development fees, and the conditions under which these fees are credited to initial franchise fees. The high estimate assumes that you commit to develop a total of three Stores under the Development Agreement (i.e., \$20,000 x number of franchises you commit to develop).

⁽¹³⁾ You are solely responsible for the salaries of your personnel any other representatives who travel to Houston, Texas for any development training, including your travel expenses, room, board and wages when attending development training.

⁽¹⁴⁾ Because your primary obligations under the Development Agreement are to develop Stores under Franchise Agreements and you will sign the first Franchise Agreement when you sign the Development Agreement and incur costs under the Franchise Agreement as you develop your first Store, your initial investment in connection with the Development Agreement consists of your development fees, your development training costs (if any) plus any additional professional and administrative fees and expenses related to reviewing and signing the Development Agreement.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You must purchase kolache dough mix and croissant dough, cinnamon rolls and other dough products and sausage products from suppliers we designate. We are not currently an authorized supplier of dough products and sausage products to franchisees, but Kolache Factory, Inc. was an authorized supplier of food products to franchisees before 2004, and we or Kolache Factory, Inc. may become an authorized supplier of food products in the future.

You must purchase the POS system and related POS equipment, software and programming support from Kolache Factory, Inc. or another supplier we designate. You must only use the services of architects and contractor we have designated or approved, and you must purchase equipment, fixtures and inventory from suppliers we have designated or approved. See Item 5.

You must participate in the Kolache Factory Loyalty and Gift Card Program (“Gift Card Program”), which we started to offer in the fall of 2007. Paytronix Systems, Inc., a Delaware company, administers the Gift Card Program. Gift Cards sold in the Kolache Factory system may be redeemed for goods and/or services at any participating Store. The fees associated with the Gift Card Program are described in the Manual. We will account for the sale and redemption of gift cards by your Store separately from other accounting. See the Loyalty and Gift Card Participation Agreement attached as Exhibit D to this Disclosure Document. The Manual will reflect any changes to the Gift Card Program that we make. We may discontinue the Gift Card Program at any time.

Thanx is our only loyalty campaign and is system-wide. Thanx captures insights, retains loyal fans, send highly-targeted campaigns and measures results in real revenue. Customers earn cash back on their credit cards after reaching a certain amount which is currently \$50.00 but could change at any time refer to the Operations Manual. Franchisees are required to promote and encourage sign up in their store with printed materials at their cost. Cost to run the program is currently supported by the Ad Funds. Thanx can be reached at support@thanx.com, 888-233-1939, 180 Redwood St. #200, San Francisco, CA 94102.

Should a franchisee choose to set up their own loyalty program, those funds would be at the sole cost of the franchisee. We would require full access to the data and any program would have to be approved prior to implementation. Adding additional loyalty programs is not recommended and strongly discouraged.

For the fiscal year ended December 31, 2021, Kolache Factory, Inc. recognized total revenue of \$0 from the sale of POS Support Services, Grand Opening Packages, architect management services, equipment vendor services and construction management services to franchisees, which represents 0% of its total revenues of \$4,262,162 for 2021. In 2021, we did not charge for Grand Opening Packages. Please refer to Item 5 for management fees. The information in this and the next paragraph is based on the unaudited financial statements of Kolache Factory, Inc. Neither an officer of KF Franchising, LLC nor Kolache Factory, Inc. has an ownership interest in any of our designated or approved suppliers.

We estimate that the cost of dough mix, other dough products, sausage products and the POS system will account for approximately 15% of the cost to establish your Store. We estimate that the cost of dough mix, other dough products, and sausage products will account for approximately 12% of your ongoing operating expenses. We estimate that your total initial required purchases or leases in establishing the Store will be approximately 75% of the cost of your total initial purchases or leases to establish your Store. We estimate your continued required purchases or leases for the operation of the Store will be approximately 70% or more of your total continuing purchases or leases for the operation of the Store. The majority of these required purchases will be from third parties under our specifications.

We require that you purchase your equipment, fixtures, signs, inventory and supplies based on our specifications from suppliers that we have approved. We also require that you submit all equipment and initial inventory purchase orders for our written approval prior to placing the order. Using non-approved suppliers and/or purchasing unapproved equipment, inventory or supplies may result in a management service fee to cover our cost for time, travel and other out-of-pocket expenses as required, and may delay your opening until the items are replaced. (See Item 5) In addition, we require that you receive written approval from us for all signage artwork before submitting it for print or fabrication. Failure to procure prior written approval may result in additional costs and delay your opening until the signage is replaced. We impose this requirement both to ensure that our franchisees purchase and use products that satisfy our quality and durability standards and to enhance our bargaining position with suppliers who want to deal with Store operators. We have no ownership affiliation with any approved supplier, and we do not receive any revenue or other material consideration on account of your purchases from any approved supplier.

We also require that you use an architect and a general contractor that we have designated or approved to develop construction documents for your Store's build out and to manage the Store's build out. If you want to use an architect or general contractor we have not approved, you must submit information on the proposed vendor as outlined in the Operations Manual for our review and approval. We may charge you the management services fee and an amount necessary to reimburse us for our costs each time we review and support an alternative vendor, and we will charge you the management services fee and seek reimbursement for all our costs if you unilaterally use an unapproved architect or contractor. (See Item 5) We have invested considerable time and effort to establish the working relationship necessary to facilitate expedient development of Store layouts and construction documents based on the standards and Trade Dress package specific to Kolache Factory. We have no ownership affiliation with any designated or approved architect or contractor, and we do not derive any income from services rendered on behalf of franchisees by designated or approved architects or contractors.

Except as indicated in the preceding paragraphs, you are not required to purchase any other goods or services from us or a source we designate.

We developed the standards and specifications for the goods and services that Stores must use through years of experience in operating Company-owned stores and through research and testing in both Company-owned and franchised Stores. We communicate our standards and specifications directly to suppliers who wish to seek our approval of their products or services. At present, we only communicate to franchisees the brand names of approved products and services and the names of approved suppliers. We communicate this information electronically through our Operations Manual available through our Intranet (including periodic bulletins) and during Store inspections by our field supervisors.

All approved suppliers must meet our standards and specifications and must, in our estimation, have a reputation for fair pricing and reliable customer service. When a franchisee proposes a new supplier, or a new supplier approaches us, we conduct our own investigation of the supplier and our own evaluation of its product or service. We charge you or the potential supplier a \$2,500 fee to defray the cost of our investigation and evaluation. We usually complete our investigation and either approve or reject the supplier in writing within 60 days. We reserve the right to revoke any previously granted approval at any time. Revocation means that franchisees can no longer purchase from a supplier that we have disapproved.

Whenever reasonably possible, we negotiate pricing arrangements on behalf of our franchisees with our suppliers. In many cases this practice enables our franchisees to benefit from volume discounts. Volume discounts may not be available to Stores located in outlying markets that a particular supplier does not serve in significant volume.

We have a purchasing arrangement with TexasPOS, our authorized vendor of the POS cash register systems that franchisees must install in their Stores. We do not derive income from franchisees' purchases of the POS systems from TexasPOS or any other vendor. See Items 5 and 11. Through this arrangement, we are able to offer our franchises discounted pricing on computers and related products.

In November 2011, we contracted with Sysco to be our sole approved distributor for food and other products. You must contract with Sysco to be your food and product distributor. All Company-owned and franchised Stores receive volume discounts based on estimated annual purchases from all stores. The volume discounts are the same for Company-owned stores and franchised Stores. In 2022, we partnered with My Small Rebate and began receiving additional small rebates on certain non-contracted items purchased by our franchisees through Sysco. The rebates fluctuate, but are generally equal to about .25 cents per case.

In March 2012, we contracted with The Coca-Cola Corporation and its affiliates to be the exclusive fountain and bottled soft drink provider for all Company-owned and franchised Stores. You must purchase soft drinks and other branded products from your local Coca-Cola distributor. Coca Cola will pay to us marketing support funds based on total soft drink purchases, and we will deposit the marketing support funds into the Ad Fund for use on approved advertising programs.

Katz Coffee based in Houston, Texas is our exclusive coffee, espresso bean and equipment provider. You are required to purchase directly through them. You are also required to purchase Kolache Factory logo cups from Sysco that carries the Katz logo. We or our affiliate Kolache Factory, Inc. are reimbursed quarterly by Katz at a penny a cup based on total usage we receive from Sysco. These funds are split evenly across our company-affiliated and franchised Stores and deposited into a separate Ad Fund account solely for vendor reimbursements. Our contact at Katz Coffee is Amanda, who can be reached at Amanda@katzcoffee.com, 2400 Karbach St., Houston, Texas 77092, 713-864-3338.

In August 2015, we signed an agreement with Cintas for our linen services. Although you are not required to use Cintas, we strongly encourage it as we have discounted pricing that may help save you money and you would have the support of the Houston office to help assist you with any potential service issues. Linen Service is not optional and you must have a verified linen provider. You are not permitted to wash or launder you own linens.

We may contract with an independent architectural firm to be our authorized architect for development of the Approved Layout (defined in Item 11) that must be used as the basis for preparing construction documents for your Store's build out. You must reimburse our parent Kolache Factory, Inc. for all fees and expenses incurred in the development of the Approved Layout for your Store. See Items 5 and 6. We have no ownership affiliation with any architectural firm, and we do not derive any income from services rendered on behalf of franchisees.

We have a purchasing arrangement with System Concepts, Inc., our authorized vendor of the Food-Trak Inventory System that franchisees must utilize in their Stores. We do not derive income from franchisees purchases from System Concepts, Inc. See Items 5 and 11. Through this arrangement, we are able to offer our franchisees discounted pricing on the licensing of Food-Trak Inventory System and related hosting and maintenance fees.

We do not presently and have no plans in the future to offer you any material benefits when you buy from a designated or approved supplier. We have no purchasing or distribution cooperatives serving our franchise system.

ITEM 9 FRANCHISEE'S OBLIGATIONS

The following table lists your principal obligations under the Development Agreement and the Franchise Agreement. The table will help you find more detailed information about your obligations in these agreements and in other items of this Disclosure Document. As used in the table's column headings, "DA" means Development Agreement and "FA" means Franchise Agreement.

Obligation	§ in Franchise Agreement	Item in Disclosure Document
a. Site selection & acquisition/lease	DA: §§ 3(b), 4 and Exhibit A Lease Rider FA: §§6(a), 7(b)	Item 11
b. Pre-opening purchases/leases	FA: §§6(a)(7), 6(a)(8), 7(d)(1)	Items 7 and 8
c. Site development & other pre-opening requirements	DA: §§3 and 4 FA: §§7(b), 7(c), 7(d)	Items 6, 7, 8 and 11
d. Initial & ongoing training	FA: §§6(a)(9), 6(b)(1), 7(d)(3), 7(d)(7), 7(d)(9)	Items 6 and 11
e. Opening	DA: §§3 and 4 FA: §7(d)(5)	Item 11
f. Fees	DA: §6 FA: §§3, 7(d)(24), 8(a), 8(b) 8(c), 9(a)(3), 9(b)(4), 10, 11(b), 13(b)(11)	Items 5, 6 and 11
g. Compliance with standards and policies/Operations Manual	FA: §§5, 6(b)(6), 7(d)(6), 11, 12(b)	Items 11 and 15
h. Trademarks and proprietary information ^{1, 2}	FA: §§7(d)(12), 7(d)(15), 7(d)(28), 12	Items 13 and 14
i. Restrictions on products/services offered	FA: §§2(c), 7(d)	Items 8 and 16
j. Territorial development and sales quotas	DA: §§3 4, 7 FA: §4	Item 12
k. Ongoing product/service purchases	FA: §§6(a)(8), 6(b)(4), 7(d)(6), 7(d)(12), 7(d)(13)	Item 8
l. Maintenance, appearance and remodeling requirements	FA: §§7(d)(17), 11(b)	Item 17
m. Insurance	FA: §7(d)(26)	Item 6
n. Advertising	FA: §§7(d)(12), 7(d)(13), 8	Items 6 and 11
o. Indemnification ²	FA: §7(d)(27)	Item 6
p. Owner's participation/management/staffing	FA: §§7(d)(3), 7(d)(7), 7(d)(9)	Item 15
q. Records and reports	FA: §§7(d)(21)- 7(d)(25)	Item 15
r. Inspections and audits ²	FA: §§7(d)(18), 7(d)(24)	Items 6, 11 and 15
s. Transfer ²	DA: §12 FA: §13	Item 17
t. Renewal	DA: §8	Item 17

	FA: §§11(b) – 11(f)	
u. Post-termination obligations ²	FA: §§12(a)(10), 17	Item 17
v. Non-competition covenants ²	FA: §§16(d)(1), 19	Item 17
w. Dispute resolution ²	DA: §13 FA: §24	Item 17

ITEM 10 FINANCING

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

ITEM 11 FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEM AND TRAINING

Except as listed below, we are not required to provide any assistance to you. “DA” refers to the Development Agreement; “FA” refers to the Franchise Agreement.

Pre-Opening Assistance: Site Selection. Before you open the first Store under the Development Agreement and your first Franchise Agreement:

(1) We provide you a list of points to look for and consider in choosing a site for your Store. [DA §3(a); FA §6(a)(1)] (See Site Selection in Item 12). We do not own any real estate on which Stores are located and do not lease Store sites to franchisees. Unless we are already familiar with your market, we will visit the area in which you propose to locate your Store and help you find and informally evaluate potential sites. We will make a one-day visit to the area at our own expense. If you request additional or longer visits, you must pay the travel, lodging and meal expenses of the representatives we send. [FA §6(a)(2)]

(2) We provide you information about a typical Store’s lay-out, utility requirements and signs, and a Lease Rider that contains provisions we require in every Store lease. [DA §3(a) and 3(b)]

(3) We will review lease proposals for up to three potential sites that you select for closer examination and help you identify the positive and negative points in each proposal, and rank the sites in numerical order. [DA §3(b); FA §6(a)(3)]. After we agree on a ranking with you, we will help you find a real estate broker who can assist you with any lease negotiations. [DA §3(b)][FA §6(a)(4)]

We may, at our option, visit your development area to inspect the sites you propose [DA §3(b)]. Whether or not we physically visit a proposed site, you may not proceed with negotiations to lease the site before we give you verbal authorization to do so.

(4) We review the final draft of your Store lease to ensure it contains a Lease Rider in substantially the form of Exhibit A to the Development Agreement/Exhibit C to the Franchise Agreement and to determine whether it contains particularly burdensome or restrictive terms, and advise you about the consequences of any objectionable provisions. When you have successfully negotiated an acceptable Store lease, we evidence our satisfaction with the site by signing a Franchise Agreement for your Store. [DA §3(b); FA §6(a)(5)] We will complete Exhibit B to the Franchise Agreement which includes the address and which will become an integral part of the Franchise Agreement. If you decide to purchase the site, we will provide the required Exhibit B when you submit to us a copy of the purchase contract. [FA §6(a)(5)]

Other Pre-Opening Assistance. Between the time you sign your Franchise Agreement and you open your Store:

(5) When you provide us a signed photocopy of the entire lease for the Approved Location, including exhibits, addenda and riders (or a copy of the deed to the site if you decide to purchase it), we will provide you the names and contact information for one or more architects we have designated or approved to develop construction documents for the Store's build out. If we have not worked with an architect licensed in your state or city, or if you desire to use an architect or contractor we have not approved, you may propose an architect or contractor for us to consider and approve, but we may charge you a management services fees plus our related costs to review your proposed architect or contractor. See Item 8 for a description of our approval procedures. If you fail to use a pre-approved architect or general contractor, we will charge you a management services fees plus our related costs to supervise and review their work. See Item 5. We will loan your architect that we have approved a Store specific layout (your "Approved Layout") and a sample set of plans, finishes and MEP specifications for a typical store, which must be used as the basis for preparing the construction documents for the Store's build out. The sample documents will not bear an architect's stamp or otherwise be suitable to satisfy the requirements for a building permit. Your architect must submit one full hard-copy set of documents to us for review and must correct all redlines to the drawing before we will issue written approval to permit you to submit them for contractor bids and/or permitting. Your architect must also submit one full hard-copy set of stamped and permitted documents before you start construction. [FA §6(a)(6)]

(6) We will furnish you a list that describes or shows the specifications for the furniture, fixtures, equipment and signs that you must install in the Store, together with the names of any vendors we have designated or approved, including us and our affiliates. You can either purchase your equipment directly or have us purchase it for you. We will also provide you the names and contact information for a general contractor we have designated or approved, along with the sequence of events and procedures that must be followed in building out and equipping a Store. If we have not worked with a general contractor in your state or city, you may propose a contractor for us to consider and approve. See Item 5 regarding fees we may charge to approve your contractor. [FA §§6(a)(7) and 7(c)(4)]

(7) We will provide you lists of inventory, supplies, paper goods and smallwares needed to stock and operate your Store, together with the names of any suppliers we have designated or approved, including us and our affiliates. Among other things, these lists include the name of the supplier from whom you must purchase dough mix made from our proprietary dough recipe and the quality and grade specifications that we have specified for logo-imprinted paper goods and other ingredients and supplies you will need. [FA §6(a)(8)]

(8) We require that all Stores have a dedicated trained and certified General Manager. If your Store has extended hours that require more than one shift, we require that your Store have two dedicated trained and certified Managers. If the Franchise Agreement covers your first Store, we require that you and one managerial-level individual and one shift leader fully complete a minimum 220 hours of training to our satisfaction and receive certification from our current training program before the Store opens for business. We also highly recommend that you send one customer service representative for one full week of training prior to Store opening. If the Franchise Agreement covers your first Store and the Store has extended hours that require more than one shift, we require that you and four managerial-level individuals fully complete training to our satisfaction and receive certification before the Store opens for business. If the Franchise Agreement covers your second Store, the General Manager may be one of the initial certified trainees. If the Franchise Agreement covers your third or later Store, we require that an additional managerial-level individual, designated as the General Manager, fully complete training to our satisfaction and receive certification before the Store opening. The Manager for your second and subsequent stores, must fully complete our current certification program to our satisfaction and receive certification before the Store opens for business. In the event that a Store's certified Manager leaves the employ of the Store, you must submit to us a replacement managerial-level individual who has fully completed a minimum of 220 hours training to our satisfaction for Manager certification within 30 days.

We will provide the training program at a designated Training Facility in Houston, Texas or potentially a location closer to you if available at such time; but reserve the right to hold a portion of the initial training online due to any applicable continuing COVID-19 protocols. If the Franchise Agreement covers your first Store, we will provide training without tuition charge for you and two managerial-level individuals. If the Franchise Agreement covers your second or later Store, we will provide training and/or certification without tuition charge for one of your managerial-level personnel (see Item 6). We require that all Franchisees and certification trainees sign our non-disclosure and confidentiality agreement before beginning training. We require that all attendees earn a Food Protection Manager Certification, accredited by the American National Standards Institute (ANSI)-Conference for Food Protection (CFP), before beginning training. Subject to availability, pupil space and payment of a reasonable tuition charge, you may periodically re-enroll or enroll others in the training program for initial or refresher training (see Item 6). You must hire all the trainees before actual training. All personnel attending training must be in uniform. You must secure workers compensation insurance before they begin training. In all cases, you must pay the wages, travel, lodging, food, incidental and other living expenses that you and your other designated trainees incur to attend our training program. All trainees must be present and on time in order for the first day of training to commence. Trainees are expected to be in attendance and on time for every training day, and must complete the full 220-hour course in order to receive certification. Chronic tardiness or absences may result in a trainee's dismissal, which can affect the store's opening schedule. [FA §6(a)(9) and FA §7(d)(3)]

We conduct the training program each time a new franchisee joins the Kolache Factory chain. We may schedule the training of more than one new franchisee at a time. The following table provides details of the training program:

TRAINING PROGRAM

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location
Internal Accounting Systems, Personnel, Procedures/Requirements and Operational Manual Overview	4	0	Our corporate office in Katy, Texas
Store Operations, POS Systems and Inventory, Sanitation and Equipment	0	220	Our company Store in the Houston, Texas area
Marketing & Advertising	3	0	Our corporate office in Katy, Texas

Hermann Gruebler is our Director of Training and supervises our training program. His experience is described in Item 2 above. Other trainers include Vicki Kozel, Dawn Nielsen, Tony Kozel, Chris Oliver and James Ortiz. Vicki Kozel, Administrative Vice President, has over 26 years of experience in food service, all with us. Dawn Nielsen, our Chief Operating Officer, has over 26 years of experience in food service, all with us. Tony Kozel, our Vice President of IT, has over 21 years of experience with us. Chris Oliver has over 18 years of food service experience, joining us in 2018. James Ortiz has extensive experience in construction and buildout management and recent food service experience, joining us in 2018.

(9) During training, we will make available to you one electronic set of the Operations Manual to be accessed through our Intranet. [Franchise Agreement, §6(a)(10)] The table of contents to the Operations Manual is attached to this Disclosure Document as Exhibit E. Our system does not include any personnel policies or procedures or security-related policies or procedures that we (at our option) may make available to you in the Operations Manual or otherwise for your optional use. You will determine to what extent, if any, these policies and procedures might apply to your operations at the Store. We neither dictate nor control labor or employment matters for franchisees and their employees and we are not responsible for the safety and security of Store employees or patrons. Other than the training described in this Item, you are not required to attend any additional training.

Operating Assistance. During the time you operate your Store:

(1) If the Franchise Agreement covers your first Store, we will send two Operations Specialists to your Store for approximately five days during the period the Store first opens for business to verify that you are operating in accordance with the Operations Manual. If the Franchise Agreement covers your second or a later Store, we will send an Operations Specialist to your Store for the amount of time, if any, that we consider adequate. The Operations Specialist may make travel reservations in advance, but will not depart for the Store until all construction is complete, all inspections and permits have been signed off, and all equipment and Trade Dress is installed and operational. We may request you to provide digital photographs, photocopies, document facsimiles, etc. as verification that the applicable tasks have been completed before the Operations Specialist's departure. [Franchise Agreement, §6(b)(1)]

(2) We will advise and assist you in planning publicity and promotions for the Store's opening. We will match up to \$3,000 of your grand opening expenses. Your grand opening expenditures must occur within 90 days of your actual Store opening to be eligible for match reimbursement. [Franchise Agreement, §6(a)(11)]

(3) We will review any materials you submit to us required for us to consider approval of any alternative architects, contractors, vendors, suppliers or providers we have not designated or previously approved. [Franchise Agreement, §§6(a)(6) and (7)]

(4) We will make our staff accessible to your general manager for consultation by telephone, text, written communication, e-mail and other forms of electronic communication. We will occasionally visit your Store to conduct quality/service/cleanliness field visits, but will not provide routine field supervision. [Franchise Agreement, §6(b)(3)]

(5) We will arrange for the production and distribution of dough mix made from our proprietary dough recipe, in quantities sufficient to satisfy the Store's reasonable needs. [Franchise Agreement, §6(b)(4)] We will be relieved of this obligation if you fail to maintain a satisfactory payment history with the distributor from which you purchase the dough mix, or if you become significantly or habitually late in paying royalties or marketing fees on time.

(6) We will provide technical services and support for your POS system, inventory control system and related computer systems, both by telephone and by onsite support. We may charge a fee for these services in accordance with our Technical Service and Support Policy as specified in the Operation Manual. [Franchise Agreement, §6(b)(5)]

(7) We will make available to you electronic additions and supplements to the Operations Manual as they become available via our Intranet or such other means we determine, and will disclose to you additional trade secrets, if any, we develop that relate to the operation of a Store. [Franchise Agreement, §6(b)(6)]

(8) So long as you comply with your financial, operational and reporting obligations under the Franchise Agreement, we will invite you to attend (at your expense) all conventions, seminars and other franchisee-oriented functions that we occasionally plan and sponsor. [Franchise Agreement, §6(b)(7)]

(9) We will permit you to purchase equipment and inventory from or through any distribution network we establish. All equipment must be new. [Franchise Agreement, §6(b)(8)]

(10) We will make available, from time to time, advice or guidance relative to suggested prices for the services and products you offer at your Store. You are not obligated to follow that advice and have the sole right to determine the minimum prices to be charged the services and products you offer at your Store. [Franchise Agreement, §6(b)(9)]

Advertising Assistance. The Franchise Agreement contemplates four levels of advertising: system-wide advertising, which we coordinate through our Ad Fund; local advertising, which you handle using template and sample materials we create; cooperative advertising with other Store operators in your market; and Internet advertising.

Ad Fund. We maintain an Ad Fund pursuant to Section 8(a) of the Franchise Agreement. All franchised Stores must contribute to the Ad Fund. See Items 6 and 9. The current contribution rate is 3% of Gross Sales, which applies to all franchised Stores. Our company Stores are not required to contribute any amounts to the Ad Fund, and therefore need not make any contributions on the same basis as franchisees.

We administer the Ad Fund, and the Franchise Agreement permits us to spend Ad Fund contributions for advertising and marketing related purposes such as: to create template and sample advertising/marketing/promotional materials to place media, at our discretion, to pursue public relations projects that enhance the Kolache Factory system's image, to cover a portion of our annual Franchisee Seminar and to help defray our marketing overhead expenses, including part of the cost of maintaining our Website, except that we may not use Ad Fund contributions to pay for those components of the Website that publicize the Kolache Factory franchise program or the sale of Kolache Factory franchises. [Franchise Agreement, §8(a)(2)] We do not guarantee that each Store will receive equal benefits or identical coverage from expenditures of Ad Fund contributions. We do not use Ad Fund contributions to solicit the sale of franchises.

We reserve the right to structure the organization of the Ad Fund and administer it in ways that, in our judgment, most effectively and efficiently accomplishes the Ad Fund's objectives. Therefore, we may organize or re-organize the Ad Fund as a separate non-profit corporation or other appropriate entity and transfer the Ad Fund's assets to this entity. If we establish a separate entity to administer the Ad Fund, you must become a member of that entity and sign a participation agreement and take any other actions we may reasonably specify. [Franchise Agreement, §8(a)(6)]

We currently use in-house and regional advertising agencies to create template and sample advertising and promotional materials and to buy media time and space. The agency receives the standard industry commission for media placement. We have no obligation to spend all the Ad Fund contributions in the fiscal year we collect them, but may accumulate contributions for special projects. Subject to applicable state law, we are not required to account to franchisees for the way we spend Ad Fund contributions. We do not have the Ad Fund audited.

During our 2021 fiscal year, 70% of the Ad Fund expenditures were spent on loyalty programs, online ordering platforms, gift card programs, training seminars, SMS, radio and billboards 5% were spent on production, 10% were spent on media placement and 15% were spent on administrative expenses.

Local Advertising. You must prepare and submit to us a plan for local advertising for each calendar year 30 days before the prior year ends. You must spend a minimum of 2-3% of Gross Sales to advertise and promote your Store locally, and provide evidence of such expenditures to us on a quarterly basis. We advertise our Stores through social media, local direct mail and magazine advertisements, radio commercials and in association with charitable events. We expect that you will follow the same pattern. [Franchise Agreement, §8(b)(1)]

We use in-house and regional advertising agencies to create template and sample advertising and promotional materials for the system. You will have the opportunity to select from these template and sample marketing materials, but you will be solely responsible for adapting and then printing or publishing any specific marketing materials to be used to promote your Store. In order to ensure that the Kolache Factory system has a cohesive advertising program that supports and enhances our brand's image, you must

participate in certain system-wide advertising and promotions programs, and any associated costs will be paid from the Ad Fund.

Because we are committed to developing unified advertising and promotions programs that support our brand's positioning in the market, we do not allow franchisees to create their own marketing materials that deviate from our template or sample materials (or enlist outside parties to create them). In rare instances we may make an exception. Any non-Company template or sample generated marketing materials are subject to our approval, including approval of all uses of our trademarks on any marketing materials, and must be submitted to us well in advance of their distribution, publication or broadcast. [Franchise Agreement, §8(b)(2)]

Pre-printed in-store advertising materials can be purchased through our current fulfillment company, or you may choose one that is local to you, but you will be responsible for adapting and printing or publishing most advertising materials you use in your Store. You may also use your own advertising agency to create your materials, subject to our right to approve all uses of our trademarks on materials we do not provide you. [Franchise Agreement, §12(a)(6)] You must submit your request for approval in writing. We will approve your advertising materials when they are consistent with our brand image and with quality control. We plan to respond within 14 days after we receive a request for approval.

Within 30 days after the end of each fiscal quarter, you must submit to us a local area marketing report ("LAM") on a form we designate. Each LAM report must show the amount you spent for local advertising and promotions during the preceding quarter and the way you spent your funds. [Franchise Agreement, §8(b)(3)]

Advertising Cooperatives. When you and at least one other Store operator (including us) have opened Stores in the same Designated Market Area (or "DMA", an advertising term that is defined in the Franchise Agreement Glossary), we may require that you and the other operators form a cooperative advertising association. Each cooperative's members will set their own contribution rate, but we have the right to disapprove a rate lower than 1% of Gross Sales. Your contribution to an advertising cooperative will not be deducted from the Ad Fund; the Advertising Co-op fund is separate from the Ad Fund. The members of the advertising cooperative will administer the cooperative and decide whether to prepare and use written governing documents and whether the governing documents are available for review to potential members of the advertising cooperative, and also decide whether to prepare annual or periodic financial statements and whether those statements will be made available for review by franchisees who are members of the advertising cooperative; we will step in only to resolve disputes the members cannot settle in 45 days. [Franchise Agreement, §8(c)(2)] No advertising cooperatives have been created to date and we have no sample or other Advertising Co-op governing documents for a franchisee to review, nor do we have any advertising cooperative annual or periodic financial statements for review. Your contributions to an area cooperative will be in addition to your contributions to the Ad Fund. If an Advertising Co-op is formed, its members will determine whether annual or periodic financial statements will be prepared and whether the statements (if created) are available for review by franchisees.

Advertising Co-op groups must use Company-generated template or sample marketing materials. In rare instances we may make exceptions. Any non-Company generated template or sample marketing materials are subject to our approval, including approval of all uses of our trademarks or any marketing materials, and must be submitted to us well in advance of their distribution, publication or broadcast. [Franchise Agreement, §8(b)(2)]

Internet Advertising and Our Intranet. We have developed an Internet Website through which we advertise Kolache Factory products, services and Stores. We have reserved the Internet addresses www.kolachefactory.com, www.kolachefactory.net, www.kolachefactory.org and www.kolachefactoryto-go.com and have established a site at the www.kolachefactory.com address. We maintain a "site locator" page on our Website that shows the addresses and telephone numbers of Stores in the Kolache Factory

network. We have sole discretion and control over any profiles using the Kolache Factory® name or trademarks on social media outlets, including without limitation, Facebook, Twitter, Instagram, Yelp, Google or other similar outlets that may exist in the future. We assess you an internet development fee in an amount we set from time to time (currently \$75 per quarter) to pay for the Website's maintenance and improvement, and we may use part of the contributions to our Ad Fund to maintain and upgrade those parts of our Website that do not advertise the availability of Kolache Factory franchises. [Franchise Agreement, §9)] We also currently maintain an intranet through which we communicate with our franchisees. We assess you an intranet development fee in an amount we set from time to time (currently \$100 per quarter) to pay for the intranet's maintenance and improvement. [Franchise Agreement, §9)]

Site Selection. The first two paragraphs under Pre-Opening Assistance in this Item 11 describe our site selection procedures and the assistance we provide in regard to the selection of a site for your Store.

After we give you pointers on features to look for in a Store location, we suggest that you review seven to ten potential sites, but we do not provide sites to you or determine your site. You must find at least three sites you consider acceptable for us to review. All of them must be located inside the development area described in your Development Agreement or within the territory described in your Franchise Agreement. After you provide us information about each site, we will evaluate the information you submit based on our then current site review guidelines and tell you which of them we favor or particularly disfavor. Our review process may or may not involve a physical site inspection. We will take a reasonable amount of time to review your site selections. However, we are not obligated to respond within a specified time. Based on our advice, you then finalize your selection, and we either approve or reject it. We will not unreasonably withhold our approval of a site, but can reject one we consider inappropriate under our then current site review guidelines. Although we reserve the right to accept or reject a Store's location, we will not select or designate a site for a Store. Consequently, you must actively participate in the site selection process. You have sole risk for your location's business and financial suitability. We generally expect you to find a site for your Store within 1 to 6 months following your execution of the Franchise Agreement.

Factors we consider in evaluating the suitability of proposed Store sites include (1) a site's visibility from adjacent traffic arteries, (2) ease of entry from and exit to adjacent streets, (3) traffic patterns on adjacent arteries, (4) the size and density of the population in the surrounding area, (5) the rental market in the area, and (6) the projected cost of leasehold improvements, but we may consider other issues in the future.

In evaluating potential sites, we typically consider a variety of factors. These factors include the size, density and income of the area's population; the area's accessibility and visibility from freeways and other major traffic arteries; traffic counts (both vehicular and pedestrian); the availability of parking; competition in the area from other sellers of bakery fresh products; and the presence of complementary businesses in the area. In our experience, the Store concept works best in a shopping center. We generally approve or disapprove a site within a reasonable time (typically within 30 days) after you submit the site to us. Approval or disapproval of a site is within our sole discretion. If you fail to find a site for your Store in a timely manner or if you fail to timely open your Store in accordance with the terms of your Franchise Agreement, your rights and the Franchise Agreement are subject to termination.

Electronic Cash Register and Computer Programs. The Franchise Agreement allows us to require that you and other Kolache Factory franchisees use a common type or version of point-of-sale or other computer systems to process and record your sales, to track your inventory, and to perform other business and accounting functions. [Franchise Agreement, §7(d)(1)] The only point-of-sale cash register system that we currently allow franchisees to use is Aloha QuickService® from NCR. The POS system includes cashier's terminals and a manager workstation. As indicated in Item 8, we have established a purchasing arrangement for the Aloha system with NCR Local - Texas Region, and NCR is currently our only authorized vendor and installer of the Aloha system. The address of NCR is P.O. Box 745947, Atlanta, GA 30374-5947; www.ncr.com, but you purchase the NCR system "key" through us.

Our computer and electronic communications requirements extend beyond your POS system and include the use of computers, modems and Internet communications for information polling and maintenance purposes. You must purchase, use and maintain whatever electronic communications and information systems we have adopted. (Franchise Agreement, §5). We assess you a software services fee in amount we set from time to time (currently \$240 per quarter) to help pay for certain software and related services we provide related to the information systems. We will have independent access to the information and data stored on your POS system and computer system, and there are no contractual limitations on this access. Stores must install and maintain a multi-camera DVR (digital video recorder) system, according to our specifications, that is connected to our corporate VPN (virtual private network). We will have independent access to the data stored on your DVR, and there are no contractual limitations on this access.

We estimate the current cost of the POS system and computer system to be about \$30,000 to \$35,000.

We have no contractual right or obligation to provide support, ongoing maintenance, repairs or upgrades for the POS system or computer system nor have we assigned that right to a third-party. You are not required to purchase support or ongoing maintenance for the POS system or computer system.

We provide unlimited free telephone and online support 24 hours a day, seven days a week. Onsite service calls may incur a service charge and trip charge at rates published in the then-current Operations Manual. Third party vendors must be preapproved and all support must be pre-authorized by us on a case-by-case basis. You may also purchase a service support policy through your local Aloha dealer or pay for repairs at Aloha's then-current hourly rate. It has been our experience that the purchase of a service support policy is unnecessary.

You are responsible for implementing and maintaining an approved Payment Card Information (PCI) compliance program that complies with our Operations Manual.

You must maintain your POS system and computer system hardware and software at the minimum current version level as published in the then-current Operations Manual. The minimum current versions as of the Effective Date of this Disclosure Document are described above. There are no limitations on the frequency or cost of your obligation to maintain minimum version levels.

Typical Time Required. The typical time between the signing of a Development Agreement or a Franchise Agreement and the opening of the first Store is nine months after we sign the Development Agreement or a Franchise Agreement, which is the date inserted as the Scheduled Opening Date for your first franchised Store. However, we cannot guarantee that your experience will be typical. Factors affecting this length of time include the selection and approval of the Store site, time required to obtain necessary permits, construction or remodeling of the facility, local ordinance and/or building code compliance, installation of equipment and signs, completion of our training program, delivery and stocking of inventory, and delaying events arising from factors outside your control. The signature pages of the Development Agreement and Franchise Agreement state target dates, but not length of time.

If you cannot complete your obligations by that date, you can extend the Scheduled Opening Date one time for 90 days. You must sign a lease and open your Stores on or before the dates we specify in Exhibit B to your Development Agreement. We discuss the dates by which Stores must open with you before we fill in the dates on Exhibit B to the Development Agreement. If you are unable to find an acceptable site before the Scheduled Opening Date, you will lose your development rights and the Development Agreement terminates.

If franchisor and franchisee cannot agree on a suitable site or if you do not locate and obtain possession of a suitable site for your Store within six months after signing the Franchise Agreement, either

you or we may terminate the Franchise Agreement within 30 days by written notice to the other. (See Item 5 for refund information.)

The Franchise Agreement requires that you open your Store on or before the Scheduled Opening Date we insert on the Franchise Agreement's signature page, but contains no other time restrictions. We calculate the Scheduled Opening Date by estimating the time it should take you to finish out your Store, usually eight to twelve weeks from the time construction begins.

ITEM 12 TERRITORY

Minimum Trade Area. The minimum trade area for a franchise may range from an office building located in a central or other business district to an area within a radius of one mile from the Store location. In determining a minimum trade area, we also take into account natural and physical barriers to customer traffic, but we may consider other issues in the future.

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

Grant of Rights and Relocation.

Development Agreement. The Development Agreement is not a Franchise Agreement and does not grant franchise rights; it only grants rights to develop franchised Stores within a defined Development Area negotiated at the time the parties sign the Development Agreement.

Franchise Agreement. A Store's Trade Area is not the equivalent of a franchised territory in which you may operate multiple units. The Franchise Agreement relates only to the operation of a single Store at an approved location; it does not allow you to open more than one Store in your Trade Area, to relocate your Store within your Trade Area or to operate Special Outlets in your Trade Area. You may alter the boundaries of your Store's Trade Area or relocate your Store only with our written permission. The Franchise Agreement permits you to relocate your franchise if you follow the same procedures you follow to select a site and pay us the relocation fee that Item 6 describes. You may only relocate your Store within the vicinity of its original Trade Area, and the new location may not infringe upon another Store's trade area. If your lease expires or the premises are condemned, you must re-open in the new location within 60 days after your Store closes. If you suffer a closing on account of a fire or other casualty, you must re-open in the new location within 120 days after the casualty occurs.

Competitive Protection and Exceptions.

Development Agreement. During the time your Development Agreement remains in effect, we will not grant anyone else the right to develop or operate a Store in your Development Area, with one exception. The exception applies if you become a multi-Store operator and transfer your franchise for an operating Store to a new owner. In that case, we can allow the new owner to sign a Development Agreement for more Stores in the Development Area, and we can allow the new owner to relocate a Store inside the Development Area in accordance with the new owner's Franchise Agreement.

The competitive protection you enjoy under your Development Agreement relates solely to Stores in the Development Area. For purposes of the Development Agreement, a Special Outlet is a temporary or seasonal booth, a kiosk, a satellite unit, an express unit, a mini-store, or similar installation, no matter how denominated. The term also includes a mobile dispensing unit, such as a cart or customized RV, but does not include an automobile or van used predominately for Catering or Delivery Service. The Development

Agreement places no restrictions on our right to open and allow others to open Special Outlets in your Development Area.

Your competitive protection as a developer relates only to retail establishments that operate under the Kolache Factory trade name; the Development Agreement imposes no restrictions on our right to operate or franchise establishments that operate under different trade names, or to offer our proprietary products and Kolache Factory memorabilia through department stores, supermarkets and similar establishments.

If you default under your Development Agreement, we may either cancel your development rights altogether, or allow other developers to build Stores in the Development Area at the same time you are pursuing development. After your Development Agreement expires or terminates, your exclusive right to develop Stores in the Development Area ends. We may then grant additional development rights and Store franchises in your Development Area and may open our own Stores there. This consequence follows even if you have completed your development obligations on time and in strict compliance with your Development Agreement. However, termination of your development rights does not affect the status of your franchise for any Store you are operating when the Development Agreement expires or terminates.

Franchise Agreement. The Franchise Agreement provides you competitive protection in a Trade Area around the Store in which we will not open or grant a franchise for another Store. We assign a Trade Area to your Store based on our then-current guidelines after we approve the Store's location and evaluate the market it will serve. We use no set formula for determining a Trade Area's boundaries, but take into account factors such as the number of middle class consumers in the area; whether the area is predominantly residential or commercial; and the presence of natural and artificial boundaries that define the market (such as rivers, highway interchanges, and nearby malls and shopping centers). We may consider other issues in the future. A Trade Area's size and other features may differ significantly from market to market, depending on our evaluation of pertinent factors.

You should take note that the definition of "Store" in the Franchise Agreement's Glossary of Terms restricts the term to "a retail establishment at a fixed (permanent) location outside an Institution or Hospitality Center that operates on a year-round basis." The Franchise Agreement places no restrictions on the operation of competitive Stores in Institutions and Hospitality Centers that might lie in a franchisee's Trade Area. An "Institution" is a hospital, airport, public or private school, university or college campus, airport terminal, convention center, exhibition hall, amusement park, fair ground, sports arena, military base, state or national park, or other facility in which Special Outlets (defined above) are frequently located. A "Hospitality Center" is a hotel, lodge, country club, social club, resort, casino, theater, or similar facility that provides recreation, entertainment or lodging either to the general public or to private members. Thus, the Franchise Agreement leaves open the possibility that we might operate or license someone else to operate a facility that sells Kolache Factory brand food and merchandise inside an Institution or Hospitality Center located nearby your Store.

However, if a competitive outlet would qualify as a "Special Outlet", special rules apply. If a proposed outlet qualifies as a Special Outlet, we will ordinarily give you the first opportunity to qualify for, develop and operate the installation. The exception to this rule applies if the Special Outlet will be located in an Institution or Hospitality Center and the facility's owner or manager has set financial, experience or organizational standards that you do not satisfy at the time the opportunity becomes available. In that case, we can allow another candidate to develop and operate the Special Outlet without presenting the opportunity to you.

The Franchise Agreement provides you no competitive protection at all outside the physical boundaries of your Trade Area, even if a competitor directs advertising materials into your Trade Area or draws customers from your Trade Area. Further, the Franchise Agreement permits franchisees to conduct catering activities in each other's Trade Areas. "Catering" means the delivery and service of kolaches,

complementary food items and non-alcoholic drinks at school events, charity functions, community festivals, business gatherings, private parties and similar events.

Additionally, the Franchise Agreement does not prohibit or restrict us or our affiliates from selling Kolache Factory brand kolaches, memorabilia and other merchandise to customers inside the Trade Area through catalogues, telemarketing campaigns, an Internet website and other direct-order techniques. We may therefore distribute catalogues and similar sales solicitation materials in your Trade Area, broadcast television and radio commercials for direct-order merchandise into your Trade Area, initiate telephone contact with and accept telephone orders from residents of your Trade Area, and fill customer orders for direct-order merchandise (including so-called “e-commerce” orders) in your Trade Area, without infringing your rights.

Finally, the Franchise Agreement does not prohibit or restrict us or our affiliates from engaging in the distribution of refrigerated or frozen kolaches or the ingredients from which kolaches are made (including our proprietary kolache dough) under the Kolache Factory name or any other name in supermarkets, hypermarkets (e.g., Wal-Mart, Sam’s Club, etc.), convenience stores and grocery stores, or from engaging in the distribution of shirts, hats and other memorabilia, and other products and merchandise, whether or not identified by or associated with the Kolache Factory brand name or logo, to or through commercial establishments that are not affiliated with us or associated with the Kolache Factory network. We and our affiliates may exercise these distribution rights, both inside and outside your Trade Area, without infringing your rights. In the future, Kolache Factory, Inc. plans to distribute frozen or refrigerated kolaches under the Kolache Factory brand name to supermarkets, hypermarkets, convenience stores and other similar retail establishments in the Houston area. We have no other plans to distribute any other products or services under our marks or any other mark in the foreseeable future.

You may not advertise your Store in another franchisee’s Trade Area. Otherwise, you may advertise your Store outside of its Trade Area. You may not perform catering services outside the DMA or within the physical boundaries (including the parking lot) of the shopping center, mall or building in which another operator’s Store is located. You may not conduct any other commercial activities from or outside your Store without our prior written consent.

Under the Franchise Agreement you must resolve all disputes between us by private negotiation, then mediation and, if those approaches fail, by binding arbitration. Thus, if we disagree over the distance from your Store beyond which we can locate another franchise, or whether we can allow a competing franchisee to operate a Special Outlet in your Trade Area, we are both committed to avoid litigation in solving the problem.

Continuation of the competitive protection the Franchise Agreement provides for your Store is not dependent on your achieving or satisfying contingencies such as sales volumes, market penetration or other goals. We set no minimum sales quota, nor do we revise any of your rights if the population increases in your Trade Area. There are no circumstances that permit us to modify your territorial rights under the Franchise Agreement.

The Franchise Agreement does not grant you any rights to acquire additional franchises within or contiguous to your Store’s Trade Area. The only agreement that grants rights to develop more than one Store is the Development Agreement.

ITEM 13 TRADEMARKS

The Franchise Agreement grants you the right to use the Kolache Factory trade name and the trademarks, service marks, symbols and logos this Item 13 describes (“Marks”). The Marks are owned by Kolache Factory, Inc., and Kolache Factory, Inc. licensed them to us in September 2000 under the terms of a Trademark and Business System License Agreement (the “License Agreement”). The License Agreement authorizes us to use the Marks and to sublicense their use to others in connection with the operation of Stores. The Marks may be used only in the manner we authorize and only for operating your Store at the location specified in the Franchise Agreement.

The License Agreement does not limit our use or granting of franchises to use the Marks, except that we and our franchisees must maintain the quality and standards of goods and services offered under the Marks that Kolache Factory, Inc. establishes. The License Agreement is perpetual in duration and may be terminated only if we assert a claim to ownership of the Marks that we fail to withdraw within 90 days after Kolache Factory, Inc. demands that we withdraw it, or if we file for liquidation under Chapter 7 of the United States Bankruptcy Code.

The following table identifies the Marks that we license you to use. All of the Marks identified in the table are registered on the Principal Register of the U.S. Patent and Trademark Office (“PTO”). Kolache Factory, Inc. has not registered any of the Marks under any state’s trademark law and have no intention of doing so.

Mark	Registration Date	Class	Registration No.
KOLACHE FACTORY & Design	August 26, 1997	30	2,091,991
KOLACHE FACTORY & Design	May 22, 2001	42	2,453,670
KOLACHE FACTORY	May 29, 2001	42	2,455,909
KOLACHE FACTORY	May 29, 2001	30	2,455,908

We have filed all required affidavits and renewals for our trademark registrations. Except for the License Agreement, there are no agreements currently in effect that would significantly limit our rights to use or license the use of any of the Marks. We also claim common law rights in the slogan under our design mark, which reads “a history of good taste.” We began to use this slogan in 2008.

There are no presently effective determinations of the PTO, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court relating to our Marks. There are no pending infringement, opposition or cancellation proceedings or any pending material litigation involving any of our Marks. We know of no infringing uses of our Marks that could materially affect their use.

You will be required under the Franchise Agreement to notify us of any infringements of or challenges to our Marks that come to your attention and to actively cooperate with us in the investigation of any infringement or challenge. We will take whatever action we deem appropriate. We are not contractually obligated to defend our Marks but, as a matter of corporate policy, intend to defend them vigorously.

You may not use the Marks as a part of your corporate or other legal name, and you must comply with our instructions in filing and maintaining trade name or fictitious name registrations. You must sign any documents we require to protect the Marks or to maintain their continued validity and enforceability. In addition, you may not directly or indirectly contest the validity of Kolache Factory, Inc.’s ownership of the Marks, or of our rights in the Marks.

You will have no right to use any of our Marks on or in connection with the Internet, except as expressly provided in Section 9 of the Franchise Agreement.

We reserve the right to substitute different Marks for use in identifying the System and the Stores operating under the System, at our sole discretion. We will not be required to reimburse you for any of your costs related to conforming to our new Marks, and will otherwise have no obligation or liability to you as a result of any substitution.

On expiration or termination of your franchise for any reason, you must immediately discontinue the use of all the Marks. You must also take appropriate action to remove the Marks from the premises in which your Store is located.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We claim copyrights in our Operations Manual and in promotional literature related to our franchise program. See Item 11 for limitations on your use of the Operations Manual. We own no other patents or copyrights that are material to our franchisees.

The Franchise Agreement's Glossary contains a definition of "trade secrets". Trade secrets means the components of our System, the contents of our Operations Manual and of all employee training materials and computer programs developed by us or in accordance with our specifications, and any other confidential information that we impart to you with respect to your Store's operation or management, whether through the Operations Manual or otherwise.

Our trade secrets include (among other things) the recipe for our kolache dough, the procedures for handling and processing our dough mix and other dough products, and the recipes for our kolaches. We do not disclose our dough recipe to you; we disclose that recipe under the protection of a confidentiality agreement only to the company that produces the dough.

We are not aware of any current infringing uses of any of our copyrights or trade secrets. Our right to use or license copyrighted materials and trade secrets is not materially limited by any agreement.

You must notify us if you become aware of infringements on the use of our Operations Manual or our trade secrets. You have the same obligations and restrictions on your use of the copyrighted materials as apply to your use of our trademarks. The same provisions regarding infringement of our trademarks apply to our copyrighted materials and trade secrets. See Item 13.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

If you are an individual, we strongly recommend (but do not require) that you manage your Store personally. If you choose not to manage your Store, you must appoint an individual, called a General Manager, to assume personal responsibility for supervising the Store's day-to-day operations. Your General Manager must complete our training program before you open your Store, and you must ensure that each successive General Manager is properly trained. We do not require that General Managers own an equity position in your business.

If you are a corporation or other business entity, we do not require that you select an equity owner or senior executive to manage your franchised business; you may appoint a General Manager with no equity interest who holds no corporate title as the General Manager. All of your General Managers (as well as Store supervisors and other managerial level personnel) must sign confidentiality agreements in a form

acceptable to us and enforceable in your state, under which they agree to hold our trade secrets and the contents of our Operations Manual in strict confidence.

If you are a business entity, each person who owns an equity interest in you of 15% or more must sign the Guaranty and Acknowledgment attached to the Franchise Agreement and/or also agree to be bound by certain provisions of the Franchise Agreement, including those relating to confidential treatment of our trade secrets (see Item 14) and to non-competition (see Item 17), as we determine. We may require spouses to sign the Guaranty and Acknowledgment if you live in a community property state. These requirements apply whether or not an equity owner is involved in your Store's management.

If you are in full compliance with all terms of the Franchise Agreement, we will invite at least one approved representative to attend our annual Franchisee Seminar. We may use Ad Fund monies to cover a portion of the costs of attendance for one approved representative, but you are responsible for any additional costs of attendance, including any Franchisee Seminar fee and the costs of other representatives you may want to send to the Franchisee Seminar. See Item 6.

We may run background and/or credit checks on you, your General Manager and/or persons who own an equity interest in you as part of our due diligence on you before you sign the Franchise Agreement or Development Agreement, or before you hire your General Manager or other key personnel. You and such other persons may be required to provide consent for such background and/or credit checks depending on the type of check we decide to perform.

If there occurs a global, regional or local crisis such as a pandemic or other similar event, you must cooperate fully with us as to how we respond to the crisis, and you must implement any remediation plan we institute, which may include us requiring a temporary closure of your Store as part of the crisis remediation plan (whether or not all or other Kolache Factory Stores are required to temporarily close).

Under the Development Agreement, you must appoint one person who is approved by us to serve as the Operating Principal. The Operating Principal is your main contact with us regarding your business and, unless otherwise agreed in writing, the Operating Principal will be required to devote their full time best efforts to the development and operation of Kolache Factory Stores.

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

Under the Franchise Agreement you must sell all food and beverage items included on our standard menu, as periodically revised. It also prohibits you from offering any foods, beverages or other merchandise that is not included on our authorized Store menu or merchandise list, as periodically revised, without first obtaining our written permission. We impose these requirements to control the quality and uniformity of the goods and services you and other franchisees may offer through use of our trade name and trademarks.

A Kolache Factory franchise relates to the retail operation of a single Store at a specific location. You may not distribute at wholesale or retail the ingredients (including our proprietary kolache dough) with which any other Store menu item is made. Further, you may not sell Kolache Factory brand kolaches, products, memorabilia or other merchandise from a Special Outlet, Internet website or catalogues.

We have the right to designate one or more third-party online and/or delivery vendors in our sole and absolute discretion and/or any policies related to the designation and use of third-party online and/or delivery vendors. You can request the approval of a third-party online and/or delivery vendor by notifying us in writing and submitting such information and the draft agreement with such third-party delivery service as we may request. We may require you to pre-pay any reasonable charges connected with our review and evaluation of any proposal. We will notify you of our decision within a reasonable time after our receipt of all required information and the third-party delivery service agreement. We may approve, or revoke or deny

approval, of any third-party delivery service in our sole and absolute discretion. Designation of a third-party delivery service may be conditioned on factors, including without limitation, our right to obtain and verify gross sales placed through the third-party delivery service platform and amount of service charges paid to the third-party delivery service, the third-party delivery service standard for handling food, order and delivery. Except as noted above related to sales made to third-party online and/or delivery vendors, there are no restrictions on the retail customers or trade area you may serve from your Store, but as a practical matter you will mainly serve customers who choose to visit the Store. See Item 12.

We have the right to add and delete items from the standard Store menu, and to add or delete memorabilia and other merchandise from the list of approved Store merchandise. There are no limits on our right to make these changes.

ITEM 17 RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

This table lists certain important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this Disclosure Document.

FRANCHISE AGREEMENT

Provision	Section Of Franchise Agreement	Summary
a. Term of the franchise	§11(a)	The term is 10 years (or balance of seller's term, if a transfer is involved).
b. Renewal or extension of the term	§11(b) – (f)	If you are in full compliance, you can extend the franchise for two additional terms of 5 years each.
c. Requirements for you to renew or extend	§11(b), 11(c), §11(d)	Among other things, you must be in full compliance with your agreements and obligations, give notice of your intent to renew not earlier than 180 days nor later than 120 days before the primary term's expiration date, sign a current franchise agreement (which may contain materially different terms and conditions from the original agreement) and general release, pay a renewal fee and remodel to our then-current specifications.
d. Termination by you	Not Applicable	Not Applicable; subject to state law.
e. Termination by us without cause	Not Applicable	Not Applicable
f. Termination by us with cause	§17	We can terminate the franchise only if you are in default under the Franchise Agreement.
g. "Cause" defined – curable defaults	§16(b)	You (or another responsible party) may cure by taking appropriate remedial action within a prescribed time after we demand remedial action.
h. "Cause" defined – defaults which cannot be cured	§ 16(d)	Irreversible defaults
i. Your obligations on termination/nonrenewal	§§17(a)(1) – 17(a)(4) ¹	Obligations include: de-identification (including discontinuing use of the proprietary marks, copyrighted material, the System and Trade Secrets); return to Kolache Factory the entire Operations Manual and any other printed, graphic or audio/visual item we designated as containing Trade Secrets; alter the Kolache Factory store's interior to remove all Trade Dress and otherwise eliminate

Provision	Section Of Franchise Agreement	Summary
		the distinctive features of the store; payment of damages; and honor our purchase option.
j. Assignment of contract by us	§13(i)	We may assign to any reasonably competent company that assumes our obligations.
k. “Transfer” by you - defined	§13(a)	Any sale, transfer or other disposition of any equity interest in Franchisee (except a limited partnership interest) will be considered a transfer.
l. Our approval of transfer by you	§13(b), §13(d), §13(f) ¹	We have the right to approve all transfers. We have the right to investigate all proposed buyers.
m. Conditions for our approval of transfer	§13(b)(1) – §13(b)(12) ¹	Among other things, you must be in full compliance with the Franchise Agreement; you must sell your complete interest in the franchise; you must return the Operations Manual (if in hardcopy) and all Copyrighted Materials to us; your buyer must qualify as a new franchisee and sign our then current form of franchise agreement; we must be satisfied with the transaction’s financial aspects and receive certain releases; and we receive a transfer fee from either the transferor or the transferee in the amount of \$6,000.
n. Our right of first refusal to acquire your business	§13(g) ¹ , §13(h)(3)	We have 30 days to accept or reject matching offer and 30 days to close the transaction; applies if you die or become disabled under certain circumstances.
o. Our option to purchase your business	§13(h)(4)	Applies only if your heirs do not meet our requirements. See “m” below.
p. Your death or disability	§13(h) ¹	Management personnel evaluated for 120 days. If approved, new owners must sign a new guarantee. If not approved, new owners must present a qualified buyer within 120 days.
q. Non-competition covenants during the term of the franchise	§19 ¹	Subject to applicable state law, you must have no involvement in a competing business anywhere.
r. Non-competition covenants after the franchise is terminated or expires	§19 ¹	Subject to applicable state law, for two years after the franchise ends, you must have no involvement in a competing business in your DMA or in any other DMA where a Store (regardless of whether owned by us or franchised) exists or is under development.
s. Modification of the agreement	§26(b)	No modifications without a written agreement.
t. Integration/merger clause	§27(a)	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to applicable state law.) Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	None	Not Applicable.

Provision	Section Of Franchise Agreement	Summary
v. Choice of forum	§24(b) ¹	Subject to applicable state law, litigation must occur in the state and federal courts located in the county in which we have our then current principal place of business (currently the U.S. District Court for the Southern District of Texas, or if such court lacks jurisdiction, the state courts located in Harris County, Texas). This requirement may not be enforceable in some states. See the State Specific Addenda following Item 23 of the FDD, the text at the end of this Item and the State Specific Amendments to the Franchise Agreement (subject to applicable state law).
w. Choice of law	§§24(a), 24(d)(6), 24(e) ¹	Subject to applicable state law, Texas law applies, except for Lanham Act and United States Copyright Act. See the State Specific Addenda following Item 23 of the FDD, the text at the end of this Item and the State Specific Amendments to the Franchise Agreement.

Notes:

- 1 If you are a business entity, anyone who owns a 15% or greater equity interest in you is also bound by these provisions. Your equity owners become bound by signing the Guaranty and Acknowledgment attached to the Franchise Agreement.

DEVELOPMENT AGREEMENT

Provision	Section of Development Agreement	Summary
a. Term of the Development Agreement	§2(a) and Summary Page	Term is based on time required to open the number of Stores you agree to develop in accordance with the time frame indicated in the development schedule.
b. Renewal or extension of the term	§§5 and 8	One 45-day extension if we confirm you used due diligence or for reasons of force majeure (unavoidable delay).
c. Requirements for you to renew or extend	§§8(b) and 8(c)	You must be in full compliance with Development Agreement and Franchise Agreements, meet financial criteria, and sign a new development agreement (which may contain materially different terms and conditions as the original agreement).
d. Termination by you	Not Applicable	Not Applicable; subject to state law
e. Termination by us without cause	Not Applicable	If you default and we terminate you under a Franchise Agreement for cause, we may default and terminate your development rights and Development Agreement.
f. Termination by us with cause	§10	We can terminate your exclusivity or your development rights if you default.
g. "Cause" defined – curable defaults	Not Applicable	Not Applicable

Provision	Section of Development Agreement	Summary
h. "Cause" defined – defaults which cannot be cured	§10	- you fail to sign approved lease signed in time - you sign an unapproved lease - you fail to open any Store by Scheduled Opening Date - you fail to meet development schedule - you fail to timely cure an Event of Default under a Franchise Agreement - you attempt to make an unapproved assignment of development or franchise rights - you negotiate or sign a lease/option to lease outside your development area
i. Your obligations on termination/nonrenewal	Not Applicable	Not Applicable
j. Assignment of contract by us	Not Applicable	Not Applicable
k. "Transfer" by you - defined	Not Applicable	Not Applicable
l. Our approval of transfer by you	§§11(a) and 11(b)	You may only transfer to a corporation, limited liability company or partnership controlled by initial equity owners; otherwise you may not transfer development rights.
m. Conditions for our approval of transfer	§11(b)	Receipt of documentation and information <i>re</i> assignment and new owners; release from any retiring shareholder if we agree to release
n. Our right of first refusal to acquire your business	Not Applicable	Not Applicable
o. Our option to purchase your business	Not Applicable	Not Applicable
p. Your death or disability	§11(c)	An individual may devise by will or by laws of descent and distribution
q. Non-competition covenants during the term of the franchise	Not Applicable	Not Applicable
r. Non-competition covenants after the franchise is terminated or expires	Not Applicable	Not Applicable
s. Modification of the agreement	§16(b)	No modifications without a written agreement.
t. Integration/merger clause	§16(a)	Only the terms of the Development Agreement and other related written agreements are binding (subject to applicable state law.) Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	None	Not Applicable

Provision	Section of Development Agreement	Summary
v. Choice of forum	§14(b)	Subject to applicable state law, litigation must occur in the state and federal courts located in the county in which we have our then current principal place of business (currently the U.S. District Court for the Southern District of Texas, or if such court lacks jurisdiction, the state courts located in Harris County, Texas). This requirement may not be enforceable in some states. See the State Cover Page of this Disclosure Document, the text at the end of this Item and the State Specific Amendments to the Development Agreement.
w. Choice of law	§§14(a), 14(d)(vi)	Subject to applicable state law, Texas law applies, except for Federal Arbitration Act. This requirement may not be enforceable in some states. See the State Cover Page of this Disclosure Document, the text at the end of this Item and the State Specific Amendments to the Development Agreement.

A provision in the Franchise Agreement that terminates this agreement on your bankruptcy may not be enforceable under Title 11, United States Code Section 101.

ITEM 18 PUBLIC FIGURES

We do not currently use any public figure to promote our franchises. We reserve the right to use public figures in our future promotional efforts.

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 that you are considering buying; or (2) a franchisor supplements the information provided in Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

Written substantiation for this financial performance representation is available to you on reasonable request.

Analysis of Franchised Store Sales Information during Fiscal Years 2020 and 2021

As of December 31, 2020, there were 28 franchised Stores open and operating in eight different states, with the majority in Texas. Of these 28 Stores, 26 were open and operating for the entire 2020 fiscal year.

As of December 31, 2021, there were 30 franchised Stores open and operating in eight different states, with the majority in Texas. Of these 30 Stores, 27 were open and operating for the entire 2021 fiscal year.

The following table presents sales information for the 2020 and 2021 fiscal year for the 26 franchised Stores that were open and operating for the full 2020 fiscal year and the 27 franchised Stores

that were open and operating for the full 2021 fiscal year. The 2020 table excludes one franchised Store that was open in 2020, but was not open for the entire 2020 fiscal year and one location that closed the first quarter of 2020. The 2021 table excludes the four franchised Stores that were opened in 2021, but were not open for the entire 2021 fiscal year.

All of the Stores in both the 2020 and 2021 tables except two are located in strip centers and range from 1,600 to 2,500 square feet. The high and low ranges both the 2020 and 2021 tables contain at least one location outside of the greater Houston market, and also have locations out of Texas. The age of the Stores are from one year to fifteen years or more.

The “High” designation in the tables presents the average and median Sales of the 9 Stores that achieved the highest sales during the 2020 and 2021 fiscal years. The “Middle” designation in the table presents the average and median Sales of the 9 Stores that achieved the next highest sales for the 2020 and 2021 fiscal years. The “Low” designation in the tables presents the average and median Sales of the 8 Stores that achieved the lowest sales for the 2020 fiscal year and the 9 Stores that achieved the lowest sales for the 2021 fiscal year.

For purposes of these tables, Sales is defined as we define it in the Franchise Agreement, meaning it includes all revenues your Store receives (including catering revenues), but excludes sales tax, coupon credits and employee discounts.

We will provide substantiation of the data we used in calculating the information upon receipt of a written request from you. Current franchisees or former franchisees listed in Exhibits F and G of this Disclosure Document may be one source of information.

Franchised Store Sales Information during Fiscal Year 2020

Category	Average Amount for Category	Number of Stores in Category	Number of Stores in Category Meeting or Exceeding the Average Amount	Median Amount for Category	Number of Stores in Category Meeting or Exceeding the Median Amount	Highest and Lowest Sales in Category
High Average Amount	\$797,388	9	3 (33%)	\$713,965	5 (55.5%)	Highest was \$1,138,918 Lowest was \$637,858
Medium Average Amount	\$599,283	9	4 (44%)	\$594,022	5 (55.5%)	Highest was \$631,014 Lowest was \$565,706
Low Average Amount	\$467,376	8	3 (38%)	\$457,727	4 (50%)	Highest was \$547,774 Lowest was \$378,139

Franchised Store Sales Information during Fiscal Year 2021

Category	Average Amount for Category	Number of Stores in Category	Number of Stores in Category Meeting or Exceeding the Average Amount	Median Amount for Category	Number of Stores in Category Meeting or Exceeding the Median Amount	Highest and Lowest Sales in Category
High Average Amount	\$1,037,710	9	3 (33%)	\$954,271	5 (55.5%)	Highest was \$1,508,684 Lowest was \$820,063
Medium Average Amount	\$742,891	9	6 (66%)	\$751,841	5 (55.5%)	Highest was \$786,668 Lowest was \$692,285
Low Average Amount	\$581,553	9	4 (44%)	\$581,323	5 (55%)	Highest was \$680,442 Lowest was \$464,369

We do not have full access to, or full confidence in, cost or EBITDA information that we may receive from time to time from our franchisees so as to have a reasonable basis to include their cost or EBITDA performance information with these Financial Performance Representations.

Analysis of Company Affiliated Store Sales, Costs and EBITDA
Information during Fiscal Years 2020 and 2021

As of December 31, 2020, Kolache Factory, Inc. (“KFI”) was operating 19 Stores in the Houston, Texas market, 4 additional stores in Texas outside of the Houston market and 4 stores outside of the State of Texas (Indianapolis, Indiana, Overland Park, Kansas). The first table presents sales and operating profit information (commonly called “EBITDA”) for the KFI Stores in fiscal the year 2020. The “High” designation in the first table presents the average and median EBITDA of the nine Stores that achieved the highest sales and operating profit during the 2020 fiscal year. The “Middle” designation in the first table presents the average and median EBITDA of the nine Stores that achieved the next highest sales and operating profit during the 2020 fiscal year. The “Low” designation in the first table presents the average and median EBITDA of the next eight KFI Stores. Four stores that were not open for the entire 2020 fiscal year are not included in the 2020 table.

As of December 31, 2021, Kolache Factory, Inc. (“KFI”) was operating 20 Stores in the Houston, Texas market, 4 additional stores in Texas outside of the Houston market and 4 stores outside of the State of Texas (Indianapolis, Indiana, Overland Park, Kansas). The second table presents sales and operating profit information (commonly called “EBITDA”) for the KFI Stores in fiscal the year 2021. The “High” designation in the second table presents the average and median EBITDA of the nine Stores that achieved the highest sales and operating profit during the 2021 fiscal year. The “Middle” designation in the second table presents the average and median EBITDA of the nine Stores that achieved the next highest sales and operating profit during the 2021 fiscal year. The “Low” designation in the second presents the average and median EBITDA of the next ten KFI Stores. One store that our affiliates acquired from Franchisees during 2021 fiscal year is not included in the 2021 table.

The information in the second half of each table is designed to show material financial and operational differences between company-owned outlets and operational franchise outlets in terms of fees and other expenditures required by the Franchise Agreement, disclosed in this Franchise Disclosure Document, or that are otherwise known by us. We will provide substantiation of the data we used in calculating the information upon receipt of a written request from you. Current franchisees or former franchisees listed in Exhibits F and G of this Disclosure Document may be one source of information.

Company Affiliated Store Sales, Costs and EBITDA
Information during Fiscal Year 2020

	High	Middle	Low
	2020	2020	2020
Sales Average/Median	\$875,541 \$798,849	\$661,448 \$654,482	\$499,572 \$505,962
<i>Number/Percentage of Stores That attained or surpassed Stated Sales level</i>	3/33% 5/56%	4/45% 5/56%	4/50% 4/50%
<i>Highest and Lowest Sales in Category</i>	Highest \$1,170,043 Lowest \$759,185	Highest \$730,441 Lowest \$618,409	Highest \$585,541 Lowest \$347,558
Food Cost Average/Median	\$224,954 \$219,061	\$181,213 \$179,880	\$138,241 \$141,034
Gross Income Average/Median	\$660,492 \$592,007	\$480,235 \$472,726	\$361,325 \$364,928
Operating Expenses: Average/Median			
Wages, Payroll Taxes & 401(k) Benefits	226,382 219,016	196,983 188,435	164,590 166,405
Rent	84,379 92,240	81,096 83,060	72,059 73,642
Advertising	15,021 14,738	20,611 16,919	18,912 19,091
Credit Card Processing	25,598 24,318	20,496 20,402	15,261 15,930
Operating Expenses	62,797 60,331	64,632 60,205	57,246 55,457
Total Operating Expenses Average/Median	414,177 414,512	383,817 393,382	328,059 324,675
ACTUAL Average/Median Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)	\$236,410 \$197,299	\$96,418 \$111,402	\$33,256 \$33,673
ACTUAL Average/Median Number/Percentage of Stores That attained or surpassed stated EBITDA level	2/23% 5/56%	4/45% 5/56%	4/50% 4/50%

	High	Middle	Low
	2020	2020	2020
<i>ESTIMATED Average/Median Royalty at 6% of Gross Sales</i>	\$52,532 \$47,931	\$39,687 \$39,269	\$29,974 \$30,358
<i>ESTIMATED Average/Median Advertising Fund Contributions at 3% of Gross Sales</i>	\$26,266 \$23,965	\$19,843 \$19,634	\$14,987 \$15,179
<i>ESTIMATED Internet Development and Maintenance Fee at \$75 per qtr.</i>	\$300 \$300	\$300 \$300	\$300 \$300
<i>ESTIMATED Website Fees at \$100 per qtr.</i>	\$400 \$400	\$400 \$400	\$400 \$400
<i>ESTIMATED Software Services Fees at \$240 per qtr.</i>	\$960 \$960	\$960 \$960	\$960 \$960
<i>ESTIMATED Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)</i>	\$155,951 \$124,174	\$35,228 \$47,027	-\$13,365 -\$13,980
<i>ESTIMATED Number/Percentage of Stores That attained or surpassed stated EBITDA level</i>	2/23% 5/56%	5/56% 5/56%	5/63% 4/50%

Company Affiliated Store Sales, Costs and EBITDA
Information during Fiscal Year 2021

	High	Middle	Low
	2021	2021	2021
Sales Average/Median	\$1,074,962 \$986,168	\$831,019 \$826,536	\$625,237 \$621,648
<i>Number/Percentage of Stores That attained or surpassed Stated Sales level</i>	3/33% 5/56%	4/45% 5/56%	4/45% 4/56%
<i>Highest and Lowest Sales in Category</i>	Highest \$1,399,774 Lowest \$932,675	Highest \$927,028 Lowest \$745,478	Highest \$740,526 Lowest \$469,912
Food Cost Average/Median	\$267,152 \$271,148	\$219,087 \$216,624	\$167,325 \$168,597
Gross Income Average/Median	\$820,802 \$747,791	\$611,932 \$609,912	\$457,911 \$453,051
Operating Expenses: Average/Median			

	High	Middle	Low
	2021	2021	2021
Wages, Payroll Taxes & 401(k) Benefits	280,941 271,168	226,965 232,243	191,762 198,130
Rent	90,762 96,318	80,536 79,945	72,210 76,908
Advertising	22,745 21,754	28,204 29,578	25,523 24,982
Credit Card Processing	30,026 30,422	24,378 23,587	18,732 18,821
Operating Expenses	76,763 74,881	70,679 63,522	58,833 58,134
Total Operating Expenses Average/Median	503,986 490,764	430,761 429,985	367,061 371,705
ACTUAL Average/Median Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)	\$316,816 \$256,353	\$181,170 \$189,458	\$90,850 \$104,36
ACTUAL Average/Median Number/Percentage of Stores That attained or surpassed stated EBITDA level	2/22% 5/56%	4/45% 4/45%	5/56% 5/56%
<i>ESTIMATED Average/Median Royalty at 6% of Gross Sales</i>	\$65,565 \$59,170	\$49,861 \$49,592	\$37,514 \$37,299
<i>ESTIMATED Average/Median Advertising Fund Contributions at 3% of Gross Sales</i>	\$32,782 \$29,585	\$24,931 \$24,796	\$18,757 \$18,649
<i>ESTIMATED Internet Development and Maintenance Fee at \$75 per qtr.</i>	\$300 \$300	\$300 \$300	\$300 \$300
<i>ESTIMATED Website Fees at \$100 per qtr.</i>	\$400 \$400	\$400 \$400	\$400 \$400
<i>ESTIMATED Software Services Fees at \$240 per qtr.</i>	\$960 \$960	\$960 \$960	\$960 \$960
<i>ESTIMATED Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)</i>	\$216,809 \$161,368	\$104,719 \$91,516	\$32,919 \$41,655
<i>ESTIMATED Number/Percentage of Stores That attained or surpassed stated EBITDA level</i>	2/22% 5/56%	4/45% 5/56%	5/56% 5/56%

* KFI's average store manager expense, including employee tax contributions, averaged approximately \$46,800 in 2020 and \$52,000 in 2021. Each Store usually employs one management level employee and five hourly employees. If you serve as the manager, you will not incur this cost unless you pay yourself a salary.

As noted above, almost all of the Stores are located in strip centers in the Houston area. There is one Store in the middle range that is located in a free-standing building in Houston, Texas. And during 2020

only, one Store was located in a downtown high rise that was open Monday through Friday. The ages of the Stores are from one year to 25+ years.

Please bear in mind the following information:

- KFI does not pay the 6% royalty on its sales that franchisees pay on theirs. If KFI had paid a 6% royalty, the average and median operating expenses of the Stores presented in the first table would have increased as follows for 2020: High -\$52,532; Middle\$39,687; Low - \$29,974. Further, EBITDA for the Stores would have decreased to the following amounts for 2020: High - \$183,878; Middle - \$56,731; Low - \$3,282 If KFI had paid a 6% royalty, the average and median operating expenses of the Stores presented in the second table would have increased as follows for 2021: High - \$65,565; Middle\$49,861; Low - \$37,514. Further, EBITDA for the Stores would have decreased to the following amounts for 2021: High - \$251,251; Middle - \$131,309; Low \$53,336.
- KFI does not contribute 3% of Gross Sales to the Advertising Fund. However, KFI routinely spends more than 3% of Gross Sales on advertising. KFI also pays \$35 monthly per Store for the Internet/website fee and software. Further, we cannot predict how much you will spend on local advertising in addition to your 3% Advertising Fund contribution. Consequently, the difference between KFI's advertising expense and yours cannot be readily ascertained.
- The information relates only to sales and operating expenses; it does not cover any Store's interest expense, depreciation charges or after-tax profitability.
Operating Expenses consist of utilities, supplies, phone, insurance, maintenance, linen services, property taxes, professional services, auto, fees and permits, security, miscellaneous computer, software hosting & maintenance and cash over/short.
- There may be other costs and other expenses not identified.

Some stores have sold or earned these amounts. Your individual results may differ. There is no assurance that you will sell or earn as much.

If you receive any other financial performance information or projections of your future income other than the information provided above, you should report it to the franchisor's management by contacting Vicki Kozel in our franchise administration department at 23240 Westheimer Parkway, Suite A, Katy, Texas 77494 and (281) 829-6188, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20 OUTLETS AND FRANCHISEE INFORMATION

**TABLE NO. 1
SYSTEMWIDE OUTLET SUMMARY
FOR FISCAL YEARS 2019 TO 2021**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2019	32	28	-4
	2020	28	28	0
	2021	28	30	+2
Company-Owned	2019	26	29	+3
	2020	29	28	-1
	2021	28	29	+1

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Total Outlets	2019	58	57	-1
	2020	57	56	-1
	2021	56	59	+3

TABLE NO.2
TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS
(OTHER THAN THE FRANCHISOR)
FOR FISCAL YEARS 2019 TO 2021

State	Year	Number of Transfers
Texas	2019	1
	2020	0
	2021	0
Totals	2019	1
	2020	0
	2021	0

TABLE NO. 3
FRANCHISED OUTLETS STATUS SUMMARY
FOR FISCAL YEARS 2019 TO 2021

State	Year	Outlets Operating at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations- Other Reasons	Outlets Operating At Year End
California	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	1	0	0	0	0	2
Indiana	2019	0	0	0	0	0	0	0
	2020	0	1	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Kansas	2019	2	0	0	0	2	0	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
Missouri	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Nebraska	2019	2	0	0	0	0	0	2
	2020	2	0	0	0	0	1	1
	2021	1	0	0	0	0	0	1
New Mexico	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
South Carolina	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1

State	Year	Outlets Operating at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets Operating At Year End
Texas	2019	23	1	0	0	2	1	21
	2020	21	2	0	0	0	1	22
	2021	22	2	0	0	1	0	23
Virginia	2019	1	0	0	0	0	0	1
	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
Totals	2019	32	1	0	0	4	1	28
	2020	28	2	0	0	0	2	28
	2021	28	3	0	0	1	0	30

TABLE NO. 4
COMPANY-OWNED OUTLETS STATUS SUMMARY
FOR FISCAL YEARS 2019 TO 2021

State	Year	Outlets Operating at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets Operating At End of Year
Indiana	2019	2	0	0	0	0	2
	2020	2	0	0	0	0	2
	2021	2	0	0	0	0	2
Kansas	2019	0	0	2	0	0	2
	2020	2	0	0	0	0	2
	2021	2	0	0	0	0	2
Texas	2019	24	0	2	1	0	25
	2020	25	1	0	2	0	24
	2021	24	0	1	0	0	25
Totals	2019	26	0	4	1	0	29
	2020	29	1	0	2	0	28
	2021	28	0	1	0	0	29

TABLE NO. 5
PROJECTED OPENINGS
AS OF DECEMBER 31, 2021

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected New Company Owned Outlets in the Next Fiscal Year
California	0	0	0
Texas	2	2	2
Totals	2	2	2

List of Current Franchisees

A list of the names of all our franchisees and the addresses and telephone numbers of their Stores is presented in Exhibit F to this Disclosure Document.

List of Former Franchisees

The names, addresses and phone numbers of former franchisees are listed on Exhibit G. Other than those listed on Exhibit G to this Disclosure Document, no franchisees have had an outlet terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during our most recently completed fiscal year. Additionally, there are no franchisees that failed to communicate with us during the ten-week period immediately preceding the date of this Disclosure Document.

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

Purchase of Previously Owned Franchise

If you are purchasing a previously-owned franchised outlet, we will provide you additional information on the previously-owned franchised outlet in an addendum to this Disclosure Document.

Confidentiality Clauses

During the last three fiscal years, we have not signed any agreements with franchisees that contain confidentiality clauses that would restrict a franchisee's ability to speak openly about their experience.

Trademark Specific Franchisee Organizations

We are not currently aware of any trademark specific franchisee organizations associated with the franchise system which we have created, sponsored or endorsed, or any independent franchisee organizations that have asked to be included in this Disclosure Document.

ITEM 21 FINANCIAL STATEMENTS

The financial statements of KF Franchising, Ltd. listed below appear in Exhibit A to this Disclosure Document. Our fiscal year end is December 31.

Unaudited Statements

Balance Sheet as of April 30, 2022

Statement of Earnings for the 4 Periods Ending April 30, 2022

Audited Statements

Independent Auditor's Report

Balance Sheets at December 31, 2021 and 2020

Statement of Operations and Partners' Capital for the Year Ended December 31, 2021, 2020 and 2019

Statement of Cash Flows at December 31, 2021, 2020 and 2019

Notes to Financial Statements

ITEM 22
CONTRACTS

Attached to this Disclosure Document are the following Exhibits:

Exhibit B	Franchise Agreement
Exhibit C	Development Agreement
Exhibit D	Loyalty and Gift Card Participation Agreement
Exhibit J	Current Sample Form of General Release

ITEM 23
RECEIPT

Two copies of a Receipt for this Disclosure Document are attached as the last two pages of this booklet. Please sign, date and return one copy to us; retain the other copy for your files. Please act promptly; we cannot communicate with you any further until we receive your signed Receipt.

APPENDIX TO DISCLOSURE DOCUMENT

We must provide you the following information about certain state laws, and how they may affect your franchise contracts. By providing you this information, we are not agreeing that the laws apply to your franchise contract or waiving our right to challenge the validity or enforceability of the state law in the future. We are giving you this information solely for purposes of satisfying our disclosure obligations.

CALIFORNIA

1. The following is added to Item 3 of the Disclosure Document:

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

2. The following is added to Item 17 of the Disclosure Document:

California Business and Professions Code sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

You must sign a release if you renew or transfer your franchise. California Corporations Code voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 and California Corporations Code §31512 void a waiver of your rights voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 2000 through 20043).

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

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

The Franchise Agreement requires application of the laws of Texas. This provision may not be enforceable under California law.

The Franchise Agreement requires binding arbitration. The arbitration will occur at Houston, Texas. This provision may not be enforceable under California law.

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

3. 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.

4. The California Corporations Code, Section 31125, requires that we give you a Disclosure Document, approved by the Department of Financial Protection and Innovation, before solicitation of a proposed material modification of your Franchise Agreement.

5. OUR WEBSITE (kolachefactory.com) HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AT www.dfpi.ca.gov.

6. The earnings claims figure(s) does (do) not reflect the costs of sales, operating expenses, or other costs or expenses that must be deducted from the gross revenue or gross sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your franchise business. Franchisees or former franchisees, listed in the offering circular, may be one source of this information.
7. Franchisor and its affiliates reserve the right to establish alternative channels of distribution in the franchise's trade area without compensation.
8. Franchisees will not receive an exclusive territory.

ILLINOIS

Illinois law governs the Franchise Agreement(s).

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.

Your rights upon Termination and Non-Renewal are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.

In conformance with section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

MARYLAND

1. Item 5 of the Disclosure Document is amended as follows:

When you purchase only one franchise, you pay the franchise fee, the architecture management fee, equipment vendor fee and a construction management fee. You do not pay a development fee.

2. Item 11 of the Disclosure Document is amended as follows:

If your Store is located in Maryland, you may present to us in writing a request for an accounting of our Ad Fund no more than once per calendar year. We will provide an unaudited accounting of the Ad Fund expenditures during the last fiscal year within a reasonable period of time not to exceed 30 days.

3. Item 17 of the Disclosure Document is amended as follows:

- (a) Pursuant to COMAR 02.02.08.16L, the general release required as part of the Agreement or as a condition of the sale, renewal and/or assignment/transfer of the franchise shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
- (b) Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.
- (c) Any provision in the Agreement which requires litigation to be conducted in a forum other than the State of Maryland will not limit any rights you may have under the § 14-216(c)(25) of the Maryland Franchise Registration and Disclosure Law to bring suit for claims arising under the Maryland Franchise Registration and Disclosure Law in the State of Maryland.

- (d) All representations in the Agreement requiring you to assent to a release, estoppel or waiver of liability are not intended to nor will they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

MINNESOTA

1. The following is added to Item 13 of the Disclosure Document:

Pursuant to Minn. Stat. Sec. 80C.12, Subd. 1(g), we will protect your right to use the trademarks, service marks, trade names, logotypes or other commercial symbols or will indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the marks to the extent required by Minnesota law.

2. The following is added to Item 17 of the Disclosure Document:

Under Minnesota law and except in certain specified cases, we must give you 90 days' notice of termination with 60 days to cure. We also must give you at least 180 days' notice of its intention not to renew a franchise, and sufficient opportunity to recover the fair market value of the franchise as a going concern. To the extent that the Agreement is inconsistent with the Minnesota law, the Minnesota law will control.

To the extent that any condition, stipulation or provision contained in the Agreement (including any choice of law provision) purports to bind any person who, at the time of acquiring a franchise is a resident of Minnesota, or, in the case of a partnership or corporation, organized or incorporated under the laws of Minnesota, or purporting to bind a person acquiring any franchise to be operated in Minnesota to waive compliance with the Minnesota Franchises law, such condition, stipulation or provision may be void and unenforceable under the nonwaiver provision of the Minnesota Franchises Law.

Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction. Specifically, we cannot require you to consent to us obtaining injunctive relief, however, we may seek such relief through the court system.

Minn. Rule 2860.4400J prohibits us from requiring you to assent to a general release. To the extent that the Agreement requires you to sign a general release as a condition of renewal or transfer, the Agreement will be considered amended to the extent necessary to comply with Minnesota law.

NEW YORK

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

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW, BUREAU OF INVESTOR PROTECTION AND SECURITIES, 120 BROADWAY, 23RD FLOOR,

NEW YORK, NEW YORK 10271.

THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.

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

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

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

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

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

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

3. The following is added to the end of Item 4:

Neither the franchisor, its affiliate, its predecessor, officers, or general partner during the 10-year period immediately before the date of the offering circular: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after that officer or general partner of the franchisor held this position in the company or partnership.

4. The following is added to the end of Item 5:

The initial franchise fee constitutes part of our general operating funds and will be used as such in our discretion.

5. The following is added to the end of the "Summary" sections of Item 17(c), titled "**Requirements**

for franchisee to renew or extend,” and Item 17(m), entitled **“Conditions for franchisor approval of transfer”**:

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.

6. The following language replaces the “Summary” section of Item 17(d), titled **“Termination by franchisee”**:

You may terminate the agreement on any grounds available by law.

7. The following is added to the end of the “Summary” section of Item 17(j), titled **“Assignment of contract by franchisor”**:

However, no assignment will be made except to an assignee who in good faith and judgment of the franchisor, is willing and financially able to assume the franchisor’s obligations under the Franchise Agreement.

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

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

WASHINGTON

1. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.

2. RCW 19.100.180 may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

3. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

4. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

5. Transfer fees are collectable to the extent that they reflect the franchisor’s reasonable estimated or actual costs in effecting a transfer.

6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee’s earnings from the party seeking

enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

EXHIBIT A
FINANCIAL STATEMENTS

THESE FINANCIAL STATEMENTS HAVE BEEN PREPARED WITHOUT AN AUDIT. PROSPECTIVE FRANCHISEES SHOULD BE ADVISED THAT NO INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR EXPRESSED AN OPINION WITH REGARD TO THEIR CONTENT OR FORM.

KF FRANCHISING, LTD.

Balance Sheet
As Of April 30, 2022

Unaudited

ASSETS

WELLS FARGO OPERATING	1,629,857.80	
WELLS FARGO AD FUND	865,481.26	
WELLS FARGO GIFT CARDS	229,532.90	
ACCOUNTS RECEIVABLE	26,730.31	
A/R AD FEES	14,501.14	
ACCUM. DEPRECIATION PROP/EQU	(46,108.51)	
EQUIPMENT	3,951.13	
COMPUTER HARDWARE	6,616.67	
COMPUTER SOFTWARE	8,513.40	
WEB SITE	16,943.81	
PHOTOGRAPHY	10,083.50	
TOTAL ASSETS		<u>2,766,103.41</u>

LIABILITIES

ACCOUNTS PAYABLE	2,026.57
ACCOUNTS PAYABLE SUSPENSE - T.K. FOOL	15,188.10
ACCOUNTS PAYABLE SUSPENSE - NEPTUEN	3,327.67
ACCOUNTS PAYABLE SUSPENSE - B&R BAKE	46,492.33
AD FEE SUSPENSE - WILLOWBROOK	42,923.37
AD FEE SUSPENSE - MASON ROAD	22,376.22
AD FEE SUSPENSE - NW FREEWAY	52,989.13
AD FEE SUSPENSE - COPPERFIELD	42,806.15
AD FEE SUSPENSE - BRENTWOOD	16,446.06
AD FEE SUSPENSE - WOODLANDS	45,686.61
AD FEE SUSPENSE - CLEAR LAKE	82,365.65
AD FEE SUSPENSE - CONROE	26,565.56
AD FEE SUSPENSE - MISSOURI CITY	21,232.14
AD FEE SUSPENSE - POST OAK	48,950.05
AD FEE SUSPENSE - LOUETTA	43,643.80
AD FEE SUSPENSE - SPRING TOWN	44,301.57
AD FEE SUSPENSE - CYPRESS TOWNE	20,136.95
AD FEE SUSPENSE - PLANO EAST	84,777.75
AD FEE SUSPENSE - FRISCO	45,969.34
AD FEE SUSPENSE - TUSTIN	39,496.52
AD FEE SUSPENSE - HUNTINGTON BEACH	(258.84)
AD FEE SUSPENSE - SPRING GREEN	54,125.15
AD FEE SUSPENSE - FORFEITURE	25,631.26
AD FEE SUSPENSE - VIRGINIA BEACH	6,298.35
AD FEE SUSPENSE - MID CITY PLAZA	5,963.52
AD FEE SUSPENSE - PASEO VILLAGE	3,644.65
AD FEE SUSPENSE - MAXWELL CREEK	3,966.41
AD FEE SUSPENSE - RESEARCH FOREST	(797.40)
AD FEE SUSPENSE - POPPA DUKES ENT.	22,973.12

AD FEE SUSPENSE - CAMPBELL WAY	21,850.09	
AD FEE SUSPENSE - MORTON PARK	9,053.46	
AD FEE SUSPENSE - PECAN PARK	3,208.25	
AD FEE SUSPENSE - CARMEL WEST	9,884.07	
AD FEE SUSPENSE - FAIRMONT CROSSING	6,722.88	
AD FEE SUSPENSE - NORTH PARK	8,276.73	
ACCRUED 401K PAYABLE	(425.89)	
PAYROLL DEDUCTIONS PAYABLE	13.95	
INSURANCE PAYABLE	9,922.42	
GIFT CARDS PAYABLE	229,532.90	
CURRENT DEFERRED FRANCHISE FEE	61,234.00	
LONG TERM DEFERRED FRANCHISE FEE	289,238.16	
TOTAL LIABILITIES		1,517,758.78
CAPITAL		
CAPITAL	25,000.00	
RETAINED EARNINGS	1,203,944.34	
SHAREHOLDER DISTRIBUTION	(250,000.00)	
PROFIT (LOSS) FOR PERIOD	269,400.29	
TOTAL CAPITAL		1,248,344.63
TOTAL LIABILITIES & CAPITAL		<u><u>2,766,103.41</u></u>

KF FRANCHISING, LTD.

Statement of Earnings For The 4 Periods Ending April 30, 2022 Consolidated

Unaudited

	Current	%	YTD	%
REVENUE				
FRANCHISE ROYALTY	109,956.53	36.37%	449,798.22	39.25%
OTHER INCOME	4,500.00	1.49%	6,000.00	0.52%
WAGE REIMBURSEMENT	166,253.23	54.99%	569,492.31	49.69%
EMPLOYEE BENEFITS REIMBURSEMENT	21,605.94	7.15%	80,761.44	7.05%
FRANCHISE EXPENSE REIMBURSEMENT	0.00	0.00%	39,981.48	3.49%
TOTAL INCOME	302,315.70	100.00%	1,146,033.45	100.00%
COST OF SALES				
TOTAL COST OF SALES	0.00	0.00%	0.00	0.00%
GROSS PROFIT	302,315.70	100.00%	1,146,033.45	100.00%
EXPENSES				
FRANCHISE WAGES	164,802.88	54.51%	564,064.10	49.22%
401 k BENEFITS	5,313.60	1.76%	18,442.71	1.61%
PHONE	218.01	0.07%	771.23	0.07%
PUBLIC RELATIONS	7,000.00	2.32%	28,300.00	2.47%
MARKETING	1,961.62	0.65%	7,240.77	0.63%
INSURANCE	16,292.34	5.39%	62,318.73	5.44%
BUSINESS DEVELOPMENT	0.00	0.00%	130.00	0.01%
TRAVEL	567.20	0.19%	4,934.77	0.43%
LEGAL SERVICES	0.00	0.00%	2,252.00	0.20%
PROFESSIONAL SERVICES	4,103.66	1.36%	17,852.63	1.56%
TRAINING & SEMINAR	0.00	0.00%	764.82	0.07%
FRANCHISE MANAGEMENT FEES	40,000.00	13.23%	160,000.00	13.96%
BANK CHARGES	445.15	0.15%	1,824.41	0.16%
SOFTWARE HOSTING & MAINTENANCE	1,733.07	0.57%	7,338.39	0.64%
FRANCHISEE RELATIONS	178.77	0.06%	398.60	0.03%
TOTAL EXPENSES	242,616.30	80.25%	876,633.16	76.49%
EARNINGS (LOSS) FROM OPERATIONS	59,699.40	19.75%	269,400.29	23.51%

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KF FRANCHISING, LTD
(A Texas Limited Partnership)

FINANCIAL STATEMENTS
(Including Independent Auditor's Report)

Years Ended December 31, 2021, 2020, and 2019

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KF FRANCHISING, LTD
TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS:	
Balance Sheets	3
Statements of Operations and Partners' Capital	4
Statements of Cash Flows	5
Notes to financial statement	6 - 13

INDEPENDENT AUDITORS' REPORT

To the Partners
of KF Franchising, Ltd

Opinion

We have audited the accompanying financial statements of KF Franchising, Ltd (a Texas limited partnership), which comprise the balance sheet as of December 31, 2021 and 2020 and the related statements of operations, partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KF Franchising, Ltd as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of KF Franchising, Ltd and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adjustments to Prior Period Financial Statements

The financial statements of KF Franchising, Ltd. as of December 31, 2019, were audited by another auditor whose report dated April 2, 2020, expressed an unmodified opinion on those financial statements. As discussed in Note 3 to the financial statements, the Company has restated its 2019 financial statements to apply the change in accounting for revenue recognition. The other auditor reported on the financial statements before the restatement adjustment.

As part of our audit of the 2020 financial statements, we also audited the adjustments to the 2019 financial statements to restate the change in accounting as described in Note 3. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to KF Franchising, Ltd.'s 2019 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2019 financial statements as a whole.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that

an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KF Franchising, Ltd.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KF Franchising, Ltd.'s ability to continue as a going concern for a reasonable period of time.

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

Lawrence, Blackburn, Meek, Maxey & Co., P.C.

Beaumont, Texas
May 5, 2022

KF FRANCHISING, LTD
(A Texas Limited Partnership)
BALANCE SHEET
As of December 31,

ASSETS

	<u>2021</u>	<u>2020</u>	<u>2019 Restated</u>
CURRENT ASSETS			
Cash			
Operating	\$ 1,442,978	\$ 1,107,711	\$ 654,654
Ad fund	868,338	872,205	831,392
Gift cards	211,278	180,078	171,271
Accounts receivable	46,174	34,550	57,573
TOTAL CURRENT ASSETS	<u>2,568,768</u>	<u>2,194,544</u>	<u>1,714,890</u>
PROPERTY AND EQUIPMENT			
Office equipment	14,035	14,035	14,035
Computers/Website	32,074	32,074	32,074
	<u>46,109</u>	<u>46,109</u>	<u>46,109</u>
Less accumulated depreciation	(46,109)	(46,109)	(46,109)
TOTAL PROPERTY AND EQUIPMENT	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 2,568,768</u>	<u>\$ 2,194,544</u>	<u>\$ 1,714,890</u>

LIABILITIES AND PARTNERS' CAPITAL

CURRENT LIABILITIES			
Accounts payable	\$ 20,886	\$ 130,236	\$ 94,590
Accrued expenses	22,889	46	-
Unexpended marketing fund contributions	884,299	879,817	831,392
Gift cards payable	211,278	184,343	171,271
Deferred franchise fee revenue	61,234	60,272	51,880
TOTAL CURRENT LIABILITIES	<u>1,200,586</u>	<u>1,254,714</u>	<u>1,149,133</u>
LONG TERM LIABILITIES			
Deferred franchise fee revenue, net of current	289,238	262,397	236,025
TOTAL LONG TERM LIABILITIES	<u>289,238</u>	<u>262,397</u>	<u>236,025</u>
TOTAL LIABILITIES	<u>1,489,824</u>	<u>1,517,111</u>	<u>1,385,158</u>
PARTNERS' CAPITAL			
General partner	250	250	250
Limited partners	24,750	24,750	24,750
Partner withdrawal	(150,000)	(150,000)	(213,000)
Accumulated earnings	1,203,944	802,433	517,732
TOTAL PARTNERS' CAPITAL	<u>1,078,944</u>	<u>677,433</u>	<u>329,732</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 2,568,768</u>	<u>\$ 2,194,544</u>	<u>\$ 1,714,890</u>

The accompanying notes are an integral part of these financial statements.

KF FRANCHISING, LTD
(A Texas Limited Partnership)
STATEMENT OF OPERATIONS AND PARTNERS' CAPITAL
For the Years Ended December 31,

	2021	2020	2019 Restated
REVENUES			
Franchise royalty income	\$ 1,248,392	\$ 899,751	\$ 1,119,145
Marketing fund revenue	705,117	274,028	420,586
Franchise licensing fees and other income	102,497	55,036	57,965
Seminar sponsorships	-	7,700	13,200
Reimbursement - wages/salaries/benefits	2,206,156	1,945,631	2,088,785
Reimbursement - franchise expense	-	-	30,225
Payroll Protection Program Loan	-	280,800	-
	<u>4,262,162</u>	<u>3,462,946</u>	<u>3,729,906</u>
EXPENSES			
Wages/salaries/payroll taxes	1,947,289	1,693,022	1,850,638
Franchise management fees	480,000	480,000	480,000
Wages/salaries - insurance	180,493	190,574	179,253
Franchise/public relations	84,565	84,250	106,708
Training/seminars	82,352	12,942	75,694
Advertising agency fees/media	25,500	56,875	64,000
Travel	10,702	12,683	54,091
401(k) contributions	56,501	51,181	51,030
Software hosting/maintenance	38,403	34,944	38,480
Marketing	24,485	30,268	32,766
Marketing fund expenses	705,117	274,028	420,586
Professional	45,931	21,564	29,708
Legal	16,064	14,136	26,647
Franchise consulting services	-	-	25,000
Franchisee relations	3,254	416	4,041
Telephone	2,916	3,739	4,005
Printing	-	211	1,604
Supplies	150	-	-
Bank charges	4,946	4,412	1,433
Depreciation	-	-	166
Total Operating Expenses	<u>3,708,668</u>	<u>2,965,245</u>	<u>3,445,850</u>
NET INCOME BEFORE TAXES	<u>553,494</u>	<u>497,701</u>	<u>284,056</u>
Texas franchise taxes	1,983	-	-
NET INCOME	<u>551,511</u>	<u>497,701</u>	<u>284,056</u>
PARTNERS' CAPITAL			
Beginning of year	677,433	329,732	598,458
Partner withdrawal	(150,000)	(150,000)	(213,000)
Prior period adjustment for change in accounting principle			339,782
End of year	<u>\$ 1,078,944</u>	<u>\$ 677,433</u>	<u>\$ 329,732</u>

The accompanying notes are an integral part of these financial statements.

KF FRANCHISING, LTD
(A Texas Limited Partnership)
STATEMENTS OF CASH FLOWS
Year Ended December 31,

	2021	2020	2019 Restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income/(Loss)	\$ 551,511	\$ 497,701	\$ 284,056
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	-	-	166
(Increase)/decrease in:			
Accounts receivable - royalties	(7,539)	34,900	(57,573)
Accounts receivable - ad fees	(4,085)	(11,877)	-
Increase (decrease) in liabilities:			
Accounts payable	(34,550)	29,426	(1,167)
Accounts payable - suspense	(74,800)	6,220	47,226
Accrued expenses	22,843	46	
Advertising costs payable	4,482	48,425	203,206
Gift cards payable	26,935	13,072	20,157
Deferred revenue	27,803	34,764	(51,877)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>512,600</u>	<u>652,677</u>	<u>444,194</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Partner distributions	(150,000)	(150,000)	(213,000)
NET CASH USED IN FINANCING ACTIVITIES	<u>(150,000) -</u>	<u>(150,000)</u>	<u>(213,000)</u>
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	362,600	502,677	231,194
CASH			
Cash, Cash Equivalents and Restricted Cash - Beginning of year (see note 2)	<u>2,159,994</u>	<u>1,657,317</u>	<u>1,426,123</u>
Cash, Cash Equivalents and Restricted Cash - End of Period	<u>\$ 2,522,594</u>	<u>\$ 2,159,994</u>	<u>\$ 1,657,317</u>

The accompanying notes are an integral part of these financial statements.

KF FRANCHISING, LTD
(A Texas Limited Partnership)
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2021, 2020 and 2019

NOTE 1 -- PARTNERSHIP ORGANIZATION

KF Franchising, Ltd., which commenced operations in February, 2001, was formed in November, 2000, as a Texas limited partnership, to engage in the sales of franchises of The Kolache Factory, Inc. and to manage the business as a franchisor. The partnership agreement provides that the Partnership shall continue in existence until it is terminated, liquidated, or dissolved as set forth in the agreement.

The General Partner, Kolache Factory Management, L.L.C., manages KF Franchising, Ltd. through its ownership of a 1% general partner interest. The General Partner assigned to KF Franchising, Ltd. the necessary licenses and rights from The Kolache Factory, Inc.

The Limited Partner owns a 99% limited partnership interest. Under terms of the Limited Partnership Agreement, all partners will share in the net profits and net losses of the Partnership in direct proportion to their ownership interests. While the General Partner is liable for the debts and obligations of the Partnership, the Limited Partner is not liable for the debts and obligations or for any partnership losses beyond the amount of his total capital investment.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

As described in Note 1, the Partnership engages in the marketing and sale of franchises of The Kolache Factory, Inc. Such franchises enable the buyer (franchisee) to utilize the products, marketing, and administrative expertise of The Kolache Factory, Inc. to own and operate profitably one or more franchised locations. The Kolache Factory, Inc. is a Houston-based retail bakery chain marketing fresh-baked products daily through its company-owned stores and franchised locations.

Cash, cash equivalents and restricted cash

For financial statement and cash flow presentation purposes, cash is composed of cash on hand, in bank accounts, and in other highly liquid investment accounts.

Income Taxes

The Partnership has elected to be treated as a limited partnership under the applicable guidelines established by the IRS code. As such, net profits are not taxable to the Partnership but are passed through personally to the individual partners. Therefore, no provision for Federal income taxes is provided for within the financial statements since all tax effects of income and loss are passed through to the partners individually.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires the partnership to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts and Notes Receivable

Receivables are carried at original invoice amount and consist solely of franchise royalties and marketing fund revenue receivable from franchisees. Management believes the accounts receivable to be fully collectible and, therefore; no allowance for doubtful accounts is deemed necessary.

KF FRANCHISING, LTD
(A Texas Limited Partnership)
NOTES TO FINANCIAL STATEMENTS (continued)
For the Years Ended December 31, 2021, 2020 and 2019

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using straight-line method over the estimated useful lives of the assets, which is estimated to be from three to seven years. These assets, totaling \$46,109 at December 31, 2021, 2020, and 2019, consist of computer equipment; software to facilitate the analysis of demographics relating to future restaurant sites; and photography costs incurred for present and future advertising campaigns. These assets were fully depreciated as of December 31, 2021, 2020 and 2019.

Advertising and Promotion Costs

The Partnership expenses advertising and promotion costs as incurred. All advertising and promotion costs were related to the Partnership's franchise operations.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("Topic 606") and has since issued various amendments which provide additional clarification and implementation guidance on Topic 606. This guidance establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Partnership adopted this new guidance effective the first day of 2019 using the modified retrospective transition methods and applied Topic 606 to those contracts which were not completed as of January 1, 2019.

The Partnership recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated earnings at the beginning of 2019. In performing its analysis, the Partnership reflected the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price. Comparative information from prior year periods has not been adjusted and continues to be reported under the accounting standards in effect for those periods under "Revenue Recognition" (Topic 605). Refer to Note 3 for further disclosure of the impact of the new guidance.

Statement of Cash Flows

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force), ("ASU 2016-18"). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cashflows. ASU 2016-18 is effective for all interim and annual reporting periods beginning after December 15, 2018. The Partnership adopted this new guidance on January 1, 2019 using a retrospective transition method.

KF FRANCHISING, LTD
(A Texas Limited Partnership)
NOTES TO FINANCIAL STATEMENTS (continued)
For the Years Ended December 31, 2021, 2020 and 2019

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The chart below show the cash, cash equivalents, and restricted cash within the statements of cash flows as of December 31, 2021, 2020 and 2019 were as follows:

	December 31, 2021	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 1,442,978	\$ 1,107,711	\$ 654,654
Restricted cash	1,079,616	1,052,283	1,002,663
Total cash, cash equivalents and restricted cash	<u>\$ 2,522,594</u>	<u>\$ 2,159,994</u>	<u>\$ 1,657,317</u>

Beginning cash for 2019 was restated to conform to ASU 2016-15 Statement of Cash Flows Topic 230. The cumulative effects of the changes made to the Statement of Cash Flows as of January 1, 2019, for the adoption of Topic 230 were as follows:

	Balance at December 31, 2018	Adjustments Due to ASC 230	Balance at January 1, 2019
Cash, cash equivalents and restricted cash	<u>\$ 646,864</u>	<u>\$ 779,259</u>	<u>\$ 1,426,123</u>

NOTE 3 -- REVENUE RECOGNITION

The Partnership has restated the 2019 financial statements to adopt Topic 606 on January 1, 2019 using the modified retrospective transition method and recorded a decrease to opening accumulated earnings of \$339,782. The Partnership adopted Topic 606 only for contracts with remaining performance obligations as of January 1, 2019, under the modified retrospective transition method. Comparative information from prior year periods has not been adjusted and continues to be reported under the accounting standards in effect for those periods under Topic 605.

The adoption changed the timing of recognition of initial franchise fees and the reporting of advertising fund contributions and related expenditures.

The cumulative effects of the changes made to the Balance Sheets as of January 1, 2019, for the adoption of Topic 606 were as follows:

	Balance at December 31, 2018	Adjustments Due to ASC 606	Balance at January 1, 2019
Liabilities			
Current deferred revenue	\$ -	\$ 51,877	\$ 51,877
Long term deferred revenue	-	287,905	287,905
Partner's Capital			
Accumulated earnings	573,458	(339,782)	233,676

KF FRANCHISING, LTD
(A Texas Limited Partnership)
NOTES TO FINANCIAL STATEMENTS (continued)
For the Years Ended December 31, 2021, 2020 and 2019

NOTE 3 -- REVENUE RECOGNITION (continued)

The following table presents disaggregation of revenue from contracts with customers for the year ended December 31, 2021, 2020 and 2019:

	December 31, 2021	December 31, 2020	December 31, 2019
Franchise royalty income	\$ 1,248,392	\$ 899,751	\$ 1,119,145
Franchise licensing fee income	82,997	55,036	57,965
Other franchise related revenues	19,500	-	-
Marketing fund revenue	705,117	274,028	420,586
Seminar sponsorships	-	7,700	13,200
Reimbursement - wages/salaries/benefits	2,206,156	1,945,631	2,088,785
Reimbursement - franchise expense	-	-	30,225
Payroll Protection Program	-	280,800	
Gross Revenue	<u>\$ 4,262,162</u>	<u>\$ 3,462,946</u>	<u>\$ 3,729,906</u>

Franchise agreements and related revenue

The Partnership sells individual franchises. The franchise agreements typically require the franchisee to pay an initial, non-refundable fee prior to opening the respective location(s), and continuing royalty fees on a weekly basis based upon a percentage of franchisee gross sales. The initial term of franchise agreements are typically 10 years. Subject to the Partnership's approval, a franchisee may generally renew the franchise agreement upon its expiration. If approved, a franchisee may transfer a franchise agreement to a new or existing franchisee, at which point a transfer fee is typically paid by the current owner which then terminates that franchise agreement. A franchise agreement is signed with the new franchisee with no franchise fee required. If a contract is terminated prior to its term, it is a breach of contract and a penalty is assessed based on a formula reviewed and approved by management. Revenue generated from a contract breach is termed settlement income by the Partnership and included in licensing fees and other income.

Under the terms of our franchise agreements, the Partnership typically promises to provide franchise rights, pre-opening services such as blueprints, operational materials, planning and functional training courses, and ongoing services, such as management of the marketing fund. Under ASC 605, initial franchise fees paid by franchisees for each arrangement were deferred until the store opened and were recognized as revenue in their entirety on that date. Upon adoption of Topic 606, the Company determined that certain pre-opening activities are not distinct from the franchise license and therefore cannot be separated into more than one performance obligation. Revenue from franchise fees are recognized on a straight line basis over the duration of the agreement, as this ensures that revenue recognition aligns with the customer's access to the franchise right.

Royalty income is recognized during the respective franchise agreement based on the royalties earned each period as the underlying franchise store sales occur. Adoption of ASC 606 did not change when the royalty revenue is recognized, therefore the new guidance did not impact the recognition of royalty income.

Gift card revenue

The franchisee locations sells gift cards to customers. The gift cards do not have an expiration date and are not redeemable for cash except where required by law. Revenue from gift cards is recognized upon redemption in exchange for products and reported within franchisee store revenue. Until redemption, outstanding balances are recorded as a liability on the balance sheet.

KF FRANCHISING, LTD
(A Texas Limited Partnership)
NOTES TO FINANCIAL STATEMENTS (continued)
For the Years Ended December 31, 2021, 2020 and 2019

NOTE 3 -- REVENUE RECOGNITION (continued)

Marketing Fund

Franchise agreements require the franchisee to pay continuing marketing fees on a weekly basis, based on a percentage of franchisees sales. The balance sheet includes marketing fund cash, which is the restricted cash, accounts receivable and unexpended marketing fund contributions. Under Topic 606, the Partnership has determined that although the marketing fees are not separate performance obligations distinct from the underlying franchise right, the Partnership acts as the principal as it is primarily responsible for the fulfillment and control of the marketing services. As a result, the Partnership records marketing fees in revenues and related marketing fund expenditures in expenses in the Statement of Operations and Partners' Capital. The Partnership historically presented the net activities of the marketing fund within the Balance Sheet. While this reclassification will impact the gross amount of reported revenue and expenses the amounts will be offsetting, and there will be no impact on net income.

Contract balances

Accounts receivable represent weekly royalty payments and monthly vendor rebate payments that represent billed and unbilled receivables due as of December 31, 2021, 2020, and 2019. The balance of contract liabilities includes franchise fees, license fees and vendor payments that have ongoing contract rights and the fees are being straight lined over the contract life. Contract liabilities also include marketing fund balances and gift card liability balances.

Information about contract balances subject to ASC 606 is as follows:

	December 31, 2021	December 31, 2020	December 31, 2019
Assets			
Accounts receivable	\$ 46,174	\$ 34,550	\$ 57,573
Total Assets	<u>\$ 46,174</u>	<u>\$ 34,550</u>	<u>\$ 57,573</u>
Liabilities			
Contract liabilities - current	\$ 61,234	\$ 60,272	\$ 51,880
Contract liabilities - long term	289,238	262,397	236,025
Total contract liabilities	<u>\$ 350,472</u>	<u>\$ 322,669</u>	<u>\$ 287,905</u>

Transaction price allocated to remaining performance obligations:

2022	\$ 61,234
2023	56,383
2024	46,682
2025	41,040
2026	37,808
Thereafter	107,325
Total	<u>\$ 350,472</u>

KF FRANCHISING, LTD
(A Texas Limited Partnership)
NOTES TO FINANCIAL STATEMENTS (continued)
For the Years Ended December 31, 2021, 2020 and 2019

NOTE 3 -- REVENUE RECOGNITION (continued)

Impact of the Adoption of ASC 606 and Restatement

As a result of the adoption of ASC 606, the Partnership had to restate the 2019 financial statements to properly conform to the applicable standard on January 1, 2019 using the modified retrospective transition method. The adoption changed the timing of recognition of initial franchise fees and the reporting of advertising fund contributions and related expenditures.

In accordance with the new revenue standard requirements, the following tables summarize the effects of the new standard on the Partnership's Balance Sheet and Statement of Operations and Partners' Capital for the year ended December 31, 2019.

	Restated December 31, 2019	Effect of Change	Balance before ASC 606 adoption
Liabilities			
Unexpended marketing fund	\$ 831,392	\$ -	\$ 831,392
Current deferred revenue	51,880	51,880	-
Long term deferred revenue	236,025	236,025	-
Partner's Capital			
Accumulated earnings	517,732	(287,905)	805,637
	Restated December 31, 2019	Effect of Change	Balance before ASC 606 adoption
Revenue			
Revenue unaffected by ASC 606	\$ 3,251,355	\$ -	\$ 3,251,355
Franchise fee income	57,965	51,877	6,088
Marketing fund revenue	420,586	420,586	-
Total Revenue	<u>3,729,906</u>	<u>472,463</u>	<u>3,257,443</u>
Expenses			
Expenses unaffected by ASC 606	3,025,264	-	3,025,264
Marketing fund expense	420,586	420,586	-
Total expenses	<u>3,445,850</u>	<u>420,586</u>	<u>3,025,264</u>
Net Income	<u>\$ 284,056</u>	<u>\$ 51,877</u>	<u>\$ 232,179</u>

NOTE 4 -- INSURED CASH ACCOUNTS

The Partnership maintains its cash balances at a bank located in Houston, Texas. Demand deposit accounts with the bank are secured by the Federal Deposit Insurance Corporation up to \$250,000. There were uninsured balances at December 31, 2021, 2020, and 2019 of approximately \$2,299,069, \$1,959,334, and \$1,464,890, respectively.

KF FRANCHISING, LTD
(A Texas Limited Partnership)
NOTES TO FINANCIAL STATEMENTS (continued)
For the Years Ended December 31, 2021, 2020 and 2019

NOTE 5 -- PARTNERS' OWNERSHIP

The partners' percentage ownership of the Partnership was as follows at December 31, 2021, 2020, and 2019:

General Partner-Kolache Factory Management, L.L.C.	1%
Limited Partner - John H. Banks	99%

NOTE 6 -- RELATED PARTIES

The Kolache Factory, Inc. is a Texas corporation, all the outstanding voting stock of which, is owned by John H. Banks, Catherine Nielsen, and the Jerilyn R. Banks Family Trust. Kolache Factory Management, L.L.C., a limited liability company created under the Texas Limited Liability Company Act, is owned 100% by The Kolache Factory, Inc. and is the General Partner in KF Franchising, Ltd. As detailed in Note 5, John H. Banks is the Limited Partner in KF Franchising, Ltd.

During the years ended December 31, 2021, 2020, and 2019, funds totaling approximately \$480,000, \$480,000, and \$480,000, respectively, were paid by the Partnership to The Kolache Factory, Inc. and/or Kolache Factory Management, L.L.C. for management, consulting, and equipment acquisition fees related to administration of the franchisee locations.

NOTE 7 -- WAGE AND SALARY REIMBURSEMENT

In order to maintain adequate insurance coverage at a reasonable cost for its employees, and to protect those employees with pre-existing medical conditions The Kolache Factory elected in October, 2005, to restructure its insurance coverage for all the employees of The Kolache Factory, Inc., Kolache Factory Management, L.L.C., and KF Franchising, Ltd. As a result of the restructure, all wages, salaries, and related payroll costs are paid by KF Franchising, Ltd. and reimbursed in total by The Kolache Factory, Inc.

Wage and salary reimbursement activity for 2021, 2020, and 2019 was as follows:

	2021	2020	2019
Reimbursement - wages/salaries/benefits	\$ 2,206,156	\$ 1,945,631	\$ 2,088,785
Wages/salaries/ payroll taxes	1,947,289	1,693,022	1,850,638
Wages/salaries-health insurance costs	180,493	190,574	179,253
401(k) contributions	56,501	51,181	51,030
Payroll processing costs	21,873	10,854	7,864
	<u>\$ 2,206,156</u>	<u>\$ 1,945,631</u>	<u>\$ 2,088,785</u>

NOTE 8 -- RECENT ACCOUNTING PRONOUNCEMENTS

Management does not believe that there are any recently issued and effective or not yet effective pronouncements as of December 31, 2021 that would have or are expected to have any significant effect on the Company's financial position, cash flows or results of operations.

NOTE 9 -- UNCERTAINTIES

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. The coronavirus outbreak has severely restricted the level of economic activity worldwide. Given the uncertainty of the spread of the coronavirus, the related financial impact to the Partnership, if any, cannot be determined at this time.

KF FRANCHISING, LTD
(A Texas Limited Partnership)
NOTES TO FINANCIAL STATEMENTS (continued)
For the Years Ended December 31, 2021, 2020 and 2019

NOTE 10 -- PAYROLL PROTECTION PROGRAM LOAN

On April 16, 2020, KF Franchising, Inc. received loan proceeds of \$280,800 from Spirit of Texas Bank, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title 1 of the CARES Act, which was enacted March 27, 2020.

Under the terms of the CARES Act, PPP Loan participants can apply for and be granted forgiveness for all or a portion of loans granted under the PPP. Under the terms of the PPP, PPP loans and accrued interest are forgivable between eight weeks and twenty-four weeks, as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight week period. KF Franchising has used the loan proceeds for purposes consistent with the PPP, and had anticipated that all or a majority of the loan amount would be forgiven.

On December 23, 2020 the PPP loan in the amount of \$280,800 and related accrued interest was forgiven by the Small Business Administration ("SBA"). The amount forgiven will be recognized as a gain upon debt extinguishment during the quarter ended December 31, 2020.

NOTE 11 -- SUBSEQUENT EVENTS

In preparing the financial statements, the Partnership has evaluated events and transactions for potential recognition or disclosure through May 5, 2022, the date that the financial statements were available to be issued

EXHIBIT B

FRANCHISE AGREEMENT

KF FRANCHISING, LTD.

FRANCHISE AGREEMENT
FOR A
KOLACHE FACTORY STORE

TABLE OF CONTENTS

SECTION	PAGE NO.
1. RECITALS.	1
2. GRANT OF FRANCHISE.	1
3. INITIAL FEES.	2
4. COMPETITIVE PROTECTION.	2
5. MODIFICATION OF CONCEPT, TRADE DRESS AND EQUIPMENT STANDARDS.....	4
6. COMPANY SERVICES AND ASSISTANCE.	5
7. FRANCHISEE'S PERFORMANCE.	7
8. ADVERTISING AND PROMOTIONS.	14
9. CONCERNING THE INTERNET.	15
10. ROYALTIES.	17
11. TERM AND RENEWAL.	17
12. USE OF INTELLECTUAL PROPERTY.....	18
13. TRANSFERS.....	21
14. INTEREST ON DELINQUENT ACCOUNTS.....	26
15. STORE RELOCATION.	26
16. DEFAULT.	26
17. TERMINATION; OTHER REMEDIES.	29
18. LIQUIDATED DAMAGES.	31
19. COVENANT AGAINST COMPETITION.....	32
20. PARTIAL INVALIDITY.	33
21. NOTICES.....	33
22. STATUS OF PARTIES.	33
23. BINDING EFFECT.	33
24. LAW GOVERNING; DISPUTE RESOLUTION.....	34
25. CONDITION PRECEDENT.	35
26. MISCELLANEOUS.	35
27. FRANCHISEE'S ACKNOWLEDGMENTS.....	35

STATE SPECIFIC ADDENDA

EXHIBITS:

- A: DESCRIPTION OF MARKS
- B: DESCRIPTION OF APPROVED LOCATION AND TRADE AREA
- C: FORM OF LEASE RIDER
- D: AUTHORIZATION AGREEMENT FOR PREAUTHORIZED PAYMENTS
- E: ASSIGNMENT OF TELEPHONE NUMBER(S)

GLOSSARY OF TERMS
GUARANTY AND ACKNOWLEDGMENT

SUMMARY PAGE

Effective Date: _____ Store No. _____

Franchisee: _____

Entity type (circle one): Corporation LLC General Partnership Ltd. Partnership

Store Street Address: _____

Phone Number: _____ Fax Number: _____

E-Mail Address: _____

General Manager: _____

Trade Area boundaries are described in Exhibit B.

Franchise Fee: \$44,900

Royalty Rate: 6% Ad Fund Rate: 3%

Internet Development Fees: Currently \$75 per quarter

Intranet Development Fees: Currently \$100 per quarter

Software Services Fee: Currently \$240 per quarter

Scheduled Opening Date: _____ Term: 10 years from the Effective Date

Initial Insurance Coverage (until Operations Manual specifies otherwise):

Certificate Received: _____

Workers Compensation Insurance, General liability insurance with policy limits of \$1,000,000 per occurrence; \$2,000,000 aggregate; umbrella coverage of \$2,000,000. Each policy must (1) be obtained from an insurance carrier with a Best's Insurance Reports rating of A, Class VIII, or better; (2) name Company as an additional insured and afford separate coverage to each named insured; (3) provide for a deductible of not more than \$500 per occurrence; (4) contain no provision that limits or reduces Franchisee's coverage on account of a claim against Franchisee by Company; and (5) provide for not less than 30 days' prior notice to Company of cancellation or non-renewal.

ADDRESSES FOR NOTICES:

Company: KF Franchising Ltd.
 23240 Westheimer Parkway, Suite A
 Katy, Texas 77494
 Attn. President

Franchisee: _____



**FRANCHISE AGREEMENT
FOR A
KOLACHE FACTORY STORE**

THIS AGREEMENT is entered into between KF Franchising, Ltd., a Texas limited partnership ("Company"), and the franchisee identified in the signature block of this Agreement ("Franchisee"). Certain terms are used in this Agreement with the meanings assigned in the Glossary of Terms appended to this Agreement. That Glossary is incorporated into, and made an integral part of, this Agreement by reference.

1. Recitals.

Company has developed a distinctive System to guide and govern the operation of retail bakeries that sell various kinds of kolaches and complementary menu items and that operate under the Kolache Factory® trade name. Company operates and franchises the operation of Stores. Franchisee has submitted an application for a franchise to operate a Store, and Company has approved Franchisee's application. The parties are now ready to embark on a franchise relationship and have entered into this Agreement to evidence the terms and conditions of their relationship.

2. Grant of Franchise.

(a) Subject to the terms, conditions and limitations of this Agreement, Company grants to Franchisee a franchise to operate a Store at the Approved Location specified on the Summary Page. Franchisee's use of any of the Marks or any element of the System in the operation of a business at any other location or in any other channel of distribution without Company's express written authorization will constitute willful infringement of Company's rights in the Marks and the System.

(b) The franchise includes the following rights and licenses:

(1) Authorization to operate the Store under the Kolache Factory® trade name, in association with the Kolache Factory service mark and in accordance with the System;

(2) Authorization to install the Trade Dress and exterior and interior signs bearing the Kolache Factory® name and logo at the Store;

(3) Authorization to provide Catering and Delivery Service from the Store; and

(4) Authorization to use the Marks to identify, advertise and promote the Store's products and services.

(c) Franchisee shall acquire no rights or authority under this Agreement or as an element of the franchise:

(1) To sell to any wholesale or retail customer the ingredients (including Company's proprietary kolache dough) from which any menu item is made;

(2) To provide Delivery Service outside the Store's Trade Area;

(3) To provide Catering outside the DMA or within the physical boundaries (including the parking lot) of the shopping center, mall or building in which another operator's Store is located; or

(4) To sell Kolache Factory brand food, memorabilia or other merchandise from a Special Outlet, an Internet Website or a catalogue without Company's express prior permission.

(5) To ship Kolache Factory brand food, products or other merchandise.

(d) Company reserves all rights that this Agreement does not expressly grant to or confer upon Franchisee.

3. Initial Fees.

(a) In consideration of Company's granting the franchise, Franchisee must pay Company a franchise fee of \$44,900. The franchise fee will be payable in full when Franchisee signs this Agreement; provided that to the extent that Franchisee signed a Development Agreement and paid a Development Fee then that portion of the Development Fee attributed to the Store (currently \$20,000 per Store) will be credited to the initial franchise fee.

(b) Company may charge a reasonable management fee for its review and consideration of information submitted by Franchisee for retaining the services or purchasing goods from a proposed alternative vendor or supplier to the ones that Company has previously designated or approved. If Franchisee submits an architect or a construction contractor to Company for approval, Company may require Franchisee to pay Company's then current management services fee (currently \$2,500 per review, but subject to increase) to review the architect or construction contractor, plus an amount to reimburse Company for salaries, travel, lodging and other out-of-pocket expenses for our personnel who perform the review. If Franchisee fails to secure Company's prior approval for an architect or a construction contractor, Franchisee must pay Company's then current management services fee to review and supervise their work through completion, plus an amount to reimburse Company for salaries, travel, lodging and other out-of-pocket expenses for its personnel who perform the supervision.

4. Competitive Protection.

(a) Company does not grant exclusive territories, but does provide its franchisees protection against some forms of competition inside a geographic Trade Area. Exhibit B to this Agreement describes the Trade Area that Company has assigned to the Store. Franchisee will enjoy competitive protection in the Trade Area to the extent the following paragraphs of this Section 4 expressly provide. Franchisee will have no protection against competition from Stores, Special Outlets or other establishments located anywhere outside the Trade Area's physical boundaries, even if these establishments market their products and services in, provide Catering in, or draw customers from the Trade Area. On the other hand, there will be no limitation on the geographic area in which Franchisee may advertise and promote the Store or from which the Store may draw customers, except that Franchisee may not advertise or promote the Store in the Trade Area of another Franchisee.

(b) Company will not open or authorize anyone except Franchisee to operate a Store in the Trade Area. For purposes of this commitment, "Store" has the precise, restricted meaning assigned in the attached Glossary of Terms. This protection will not apply to, and Franchisee will have no competitive protection from, Special Outlets that Company, another franchisee or a licensee operates, either

permanently, temporarily or seasonally, in a Mall, Institution or Hospitality Center located in the Trade Area.

(c) If an opportunity arises to develop a Special Outlet in the Trade Area, except as provided in the next sentence, Company promises not to pursue or authorize anyone else to pursue the opportunity without first determining Franchisee's interest in the project and evaluating Franchisee's qualifications to pursue it. Company will have no obligation to notify Franchisee of or to consider Franchisee for the opportunity if the facility in which the Special Outlet will operate is an Institution or Hospitality Center and the facility's owner or manager sets financial, experience or organizational standards for an acceptable operator that Franchisee does not satisfy at the time the opportunity becomes available. Franchisee acknowledges that the managers of many Institutions and Hospitality Centers will deal only with experienced, institutional food service companies, and that Franchisee may not satisfy their financial, experience or organizational criteria.

(d) In evaluating Franchisee's qualifications to develop and operate a Special Outlet in the Trade Area, Company will take into account Franchisee's financial strength, management and organizational capabilities, prior performance as a Kolache Factory franchisee, and other factors Company considers relevant to a sound business decision. Company promises to exercise reasonable business judgment in conducting its evaluation, but its decision regarding Franchisee's qualifications will be final and conclusive. If Company decides that Franchisee is qualified to pursue the opportunity, Company and Franchisee will, at Company's option, sign either an amendment to this Agreement or a separate agreement that evidences the nature and extent of Franchisee's rights to operate the Special Outlet. If Company decides that Franchisee is not qualified to pursue the opportunity, Company will be free to pursue it, either directly or through another franchisee or licensee.

(e) Franchisee will have no competitive protection from Catering activities that Company or other franchisees conduct in the Trade Area, except within the physical boundaries (including the parking lot) of the shopping center, mall or building in which the Store is located. On the other hand, Franchisee may freely compete for Catering opportunities both inside and outside the Trade Area, so long as Franchisee does not engage in Catering outside the DMA or within the physical boundaries (including the parking lot) of the shopping center, mall or building in which another operator's Store is located.

(f) The competitive protection this Section 4 provides to Franchisee will not to any extent prohibit or restrict Company or its affiliates from engaging in the distribution of refrigerated or frozen kolaches or the ingredients from which kolaches are made (including the Kolache Factory proprietary dough), under the Kolache Factory name or any other name in supermarkets, hypermarkets (e.g., Walmart, Sam's Club, etc.), convenience stores and grocery stores, or from engaging in the distribution of shirts, hats and other memorabilia, and other products and merchandise, whether or not identified by or associated with the Kolache Factory brand name or logo, to or through commercial establishments that are not affiliated with Company or associated with the Kolache Factory Network. Company and its affiliates may exercise their distribution rights, both inside and outside the Trade Area, without infringing Franchisee's competitive protection rights.

(g) The competitive protection this Section 4 provides to Franchisee will not prohibit or restrict Company or its affiliates from selling Kolache Factory brand kolaches, memorabilia and other merchandise to customers inside the Trade Area through catalogues, telemarketing campaigns, an Internet Website and other direct-order techniques. Company and its affiliates may distribute catalogues and similar sales solicitation materials in the Trade Area, broadcast television and radio commercials for direct-order merchandise into the Trade Area, transmit electronic messages into and accept e-commerce orders from residents of the Trade Area, initiate telephone contact with and accept telephone orders from residents of the Trade Area, and fill customer orders for direct-order merchandise in the Trade Area, without in any such case infringing Franchisee's competitive protection rights.

(h) Franchisee acknowledges and agrees that Company has no express obligation or implied duty to insulate or protect Franchisee's revenues from erosion as the result of the Store's competing with other Stores or with Special Outlets located outside the Trade Area; with Special Outlets located inside the Trade Area as permitted in Section 4(b); or as a result of Company's competing, or allowing other franchisees to compete, with the Store in the ways and to the extent this Section 4 provides or contemplates. Franchisee expressly waives and relinquishes any right to assert any claim against Company based on the existence, actual or arguable, of any such obligation or duty.

5. Modification of Concept, Trade Dress and Equipment Standards.

(a) Company reserves the right to modify the System and the Store concept, Trade Dress and equipment package from time to time for a variety of reasons. These reasons include the need (i) to respond to changes in consumer expectations and buying trends, (ii) to seize efficiencies made possible by growth of the Kolache Factory Network, (iii) to implement efficiencies made possible by technological advances or as a result of Company's research and development activities, (iv) to implement co-branding alliances with other companies, and (v) to meet competition. Company reserves the right and discretion (1) to add new and different menu items to the list of authorized Store merchandise, (2) to withdraw menu items from the list of authorized Store merchandise, or to change their names, recipes and image, (3) to change the Trade Dress, equipment and fixtures standards for Stores, (4) to add or change the standards for customer services (such as Catering and Delivery Service), (5) to abandon the use of equipment, fixtures and merchandising displays for any menu item that Company withdraws from the list of authorized Store merchandise, and (6) to require the use of new or different electronic data processing and communications equipment and facilities.

(b) If the addition of a menu item or product to the authorized merchandise list would not require the installation of new fixtures or equipment (other than items Company classifies as smallwares), Company may instruct Store franchisees to begin offering the new menu item as of a date specified in a supplement to the Operations Manual. Similarly, if the deletion of a menu item or product from the authorized Store merchandise list would not require the removal of fixtures or equipment (other than items Company classifies as smallwares), Company may direct Store franchisees to cease offering the product as of a date specified in a supplement to the Operations Manual. Franchisee will comply with Company's instructions as of the date Company specifies, which need not be more than 30 days after Company distributes the Operations Manual supplement.

(c) If Company abandons or adopts changes in the Store operating concept that necessitate the addition or removal of furniture, fixtures, equipment, signs or Trade Dress items, Company may instruct Store franchisees to adapt their Stores to the concept change through a supplement to the Operations Manual. Company, in consultation with Franchisee, will establish a schedule for Franchisee to implement the concept change that will depend, among other factors, on the Store's size, age, and the amount Franchisee has spent in recent periods to refurbish and upgrade the Store. Franchisee will remove from the Store any items Company designates as obsolete and will purchase and install any different or additional items Company specifies as meeting its new standards, all in accordance with the schedule Company establishes for Franchisee's Store.

(d) Company requires that all Stores install and maintain a computer-based Information System that permits faster and more accurate communication between Company and Store franchisees. The Information System may involve or include an Intranet network that Company designs and administers for the Kolache Factory Network. Franchisee acknowledges that this Section 5 obligates Franchisee to install the type and capacity of computer, modem, telephony and peripheral equipment Company designates and to participate in the Information System in accordance with standards, protocols and procedures Company includes in the Operations Manual. The Information System may include an internet based enterprise telephony system that Company administers from the Kolache Factory Network.

(e) If Company allows the Store to participate in any new product test, Franchisee will participate in the test in accordance with Company's standards and specifications and will discontinue offering any product that Company decides not to add permanently to the authorized Store merchandise list.

(f) If Franchisee develops or suggests an innovation or improvement that Company decides to incorporate into the Kolache Factory Store concept or System, either temporarily or permanently, Franchisee will assign ownership of the innovation or improvement to Company without compensation. The sole consideration for the assignment will be Company's giving Franchisee recognition and credit for the innovation or improvement in announcing it to members of the Kolache Factory Network.

6. Company Services and Assistance.

(a) **Development Stage Assistance.** To the extent Company has not provided the following services pursuant to a Development Agreement with Franchisee or its Affiliate, Company will provide the following services and assistance to Franchisee before Franchisee opens the Store.

(1) Promptly after the Effective Date, Company will provide Franchisee a list of points to consider in evaluating a site's potential as a Store and in negotiating commercial real estate leases.

(2) Unless Company is already familiar with the market, it will visit the area in which Franchisee proposes to locate the Store and will help Franchisee locate and informally evaluate potential sites. Company will make one one-day visit to the area at its own expense. If Franchisee requests additional or longer visits, Franchisee must pay the travel, lodging and meal expenses of the Company representatives who make a visit.

(3) Company will review lease proposals for up to three potential sites that Franchisee preliminarily selects for closer examination, will help Franchisee identify the positive and negative points in each proposal, and will help Franchisee rank the sites in numerical order.

(4) After Company and Franchisee agree on a ranking, Company will help Franchisee find a real estate broker who can assist Franchisee with lease negotiations.

(5) When Franchisee and a landlord conclude negotiation of a lease that contains terms reasonably satisfactory to Company (including a Lease Rider in substantially the form of Exhibit C to this Agreement), Company will convey its approval of the site by providing Franchisee a copy of a Summary Page that shows the address of the Approved Location as the Store Street Address and an Exhibit B that indicates the boundaries of the Trade Area. The revised Summary Page and completed Exhibit B that Company provides to Franchisee will become an integral part of this Agreement. (If Franchisee decides to purchase the site, Company will provide the required Summary Page when Franchisee submits to Company a copy of the purchase contract.)

(6) When Franchisee provides Company an executed photocopy of the entire lease for the Approved Location, including exhibits, addenda and riders (or a copy of the deed to the site if Franchisee decides to purchase it), Company will provide Franchisee the name and contact information for one or more architects Company has designated or approved to develop construction documents for the Store's build out. Company will loan Franchisee a Store-specific Approved Layout, and may provide prototype construction plans for Franchisee's use. The prototype documents will not bear an architect's stamp or otherwise be suitable to satisfy the requirements for a building permit.

(7) Company will furnish Franchisee a list that describes or shows the specifications for the furniture, fixtures, equipment and signs that Franchisee must install in the Store, together with the names of suppliers Company has designated or approved, including Company and its affiliates. Franchisee can either purchase the equipment directly or have Company purchase it for Franchisee. Company will provide Franchisee the names and contact information for any general contractors

Company has designated or approved, along with the sequence of events and procedures that must be followed in building out and equipping a Store. Company may, but will not be obligated, consider alternative vendors, suppliers or providers of goods and services submitted by Franchisee for approval. Franchisee must secure Company's approval prior to using any alternative vendor, supplier or provider.

(8) Company will furnish Franchisee lists of the inventory, supplies, paper goods and smallwares needed to stock and operate a Store, together with the names of any suppliers Company has designated or approved, including Company and its affiliates. These lists include the name of the supplier from whom Franchisee must purchase dough concentrate made from Company's proprietary dough recipe and the quality and grade specifications that Company has adopted for logo-imprinted paper goods and other ingredients and supplies Franchisee will need.

(9) Company will provide a training program for the individuals specified in Section 7(d)(3) at its Training Facilities in the Houston, Texas area. If this Agreement relates to Franchisee's first Store, Company will provide training without tuition charge for Franchisee and two managerial-level individuals. If this Agreement relates to Franchisee's second or subsequent Store, Company will provide training without tuition charge for one managerial-level individual. Company requires all Franchisees and certification trainees to sign our non-disclosure and confidentiality agreement before beginning training. Company requires that all attendees earn a Food Protection Manager Certification, accredited by the American National Standards Institute (ANSI)-Conference for Food Protection (CFP), before beginning training. Subject to availability of pupil space and to payment of a reasonable tuition charge, Franchisee may re-enroll or enroll others in the training program from time to time for initial or refresher training. In all cases, Franchisee must pay the travel, lodging and incidental expenses that Franchisee, the General Manager and Franchisee's other designated trainees incur to attend the training program.

(10) During training, Company will make available to Franchisee (on loan) one electronic set of the Operations Manual to be accessed through Company's Intranet or such other means determined by Company from time to time.

(11) Company will advise and assist Franchisee in planning publicity and promotions for the Store's opening. Company will match up to \$3,000 of Franchisee's grand opening advertising expenses for the Store, upon Franchisee's submission of evidence of its grand opening expenses to Company. Franchisee has 90 days from the Store opening to hold its Grand Opening and submit evidence expenses for Company match.

(b) **Operational Assistance.** Company will provide the following services and assistance to Franchisee after the Store opens.

(1) If this Agreement covers Franchisee's first Store, Company will send two individuals who have been trained in Store operations (an "Operations Specialist") to the Store for approximately five days during the period the Store first opens for business to verify that Franchisee is operating the Store in accordance with the Operations Manual. If this Agreement covers Franchisee's second or a later Store, Company will send an Operations Specialist to the Store for the amount of time that Company considers adequate. The Operations Specialist may make travel reservations in advance, but will not depart for the Store until all construction is complete, all inspections and permits have been signed off, and all equipment and Trade Dress is installed and operational. Company may require that Franchisee provide digital photographs, photocopies, document facsimiles and other documentation to verify that these tasks have been completed prior to the Operations Specialist's departure.

(2) Company will make its staff accessible to the General Manager for consultation by telephone, text, written communication, e-mail and other forms of electronic communication. Company will occasionally visit the Store to conduct QSC Inspections, but will not provide routine field supervision.

(3) Company will arrange for the production and distribution of dough concentrate made from its proprietary dough recipe or provide a proprietary dough mix in quantities sufficient to satisfy the Store's reasonable needs. Company will be relieved of any obligations to Franchisee under this Section 6(b)(4) if Franchisee fails to maintain a satisfactory payment history with the distributor from which Franchisee purchases dough products, or if Franchisee becomes significantly or habitually late in paying royalties or marketing fees on time.

(4) Company will provide technical services and support for Franchisee's POS system, inventory control system and related computer systems, both by telephone and by onsite support. Company may charge a fee for these services in accordance with its Technical Service and Support Policy, as revised from time to time. Company may outsource these services to a third party.

(5) Company will make available to Franchisee (on loan) electronic additions and supplements to the Operations Manual as they become available via Company's Intranet or such other means determined by Company from time to time, and will disclose to Franchisee additional Trade Secrets, if any, Company develops that relate to the operation of Stores.

(6) So long as Franchisee complies with Franchisee's financial, operational and reporting obligations under this Agreement, Company will invite Franchisee to attend (at Franchisee's expense) all conventions, seminars and other Franchisee-oriented functions Company from time to time plans and sponsors.

(7) Company will permit Franchisee to purchase equipment and inventory from or through any distribution network Company establishes.

(8) Company or its affiliate may implement a loyalty, gift card or similar program for the benefit of the Kolache Factory Network, which it may discontinue at any time.

(9) Company will make available, from time to time, advice or guidance relative to suggested prices for the services and products offered at the Store that, in Company's judgment, constitutes good business practice. Such advice and/or guidance will be based on Company's experience and the experience of the Company's franchisees in operating Stores generally and an analysis of the costs of such services and products and prices charged for competitive services and products. Such advice and/or guidance will not be deemed or construed to impose upon Franchisee any obligation to charge any fixed, minimum prices for the services and products offered at the Store. Franchisee will not be obligated to accept any such advice or guidance as to minimum prices and will have the sole right to determine the minimum prices to be charged from time to time by the Store.

7. Franchisee's Performance.

(a) **Business Entity Requirements.** Franchisee must be a Business Entity or file for a Business Entity within 30 days of signing this Agreement, and the following requirements apply:

(1) The Charter Documents of Franchisee must provide that Franchisee's purposes and activities are restricted exclusively to operating Kolache Factory Stores.

(2) True, complete and duly authenticated copies of Franchisee's Charter Documents and of a resolution of Franchisee's board of directors, general partner or other managing body authorizing Franchisee to enter into and perform this Agreement must be furnished to Company prior to the execution of this Agreement.

(3) Franchisee's Charter Documents shall impose transfer restrictions that give effect to Section 13(a), and each certificate representing an ownership interest in Franchisee shall contain or have conspicuously noted upon its face a statement in a form satisfactory to Company to the effect that any assignment or transfer of the certificate is subject to all restrictions this Agreement imposes on transfers and assignments.

(4) Franchisee shall maintain a list of all record and beneficial owners of equity interests in Franchisee and shall furnish a current version of the list to Company between December 15th and 31st of each year and upon request.

(b) **Selection and Possession of Approved Location.** Franchisee must actively participate in the site selection and lease negotiation process that Section 6(a) describes. Franchisee acknowledges that responsibility for selecting an appropriate site rests with Franchisee and that Franchisee will have sole responsibility for the Approved Location's suitability. To the extent that Franchisee has not complied with the following pursuant to a Development Agreement, Franchisee will take each of the following actions:

(1) When Franchisee receives a preliminary draft of the proposed Store lease from the landlord, Franchisee will promptly provide Company a copy of the lease. Company will review and comment on the lease from the perspective of a tenant experienced in negotiating similar leases. However, Company will not provide legal or expert real estate advice with respect to any provision of the lease. Franchisee will negotiate the lease in good faith and will give due consideration to Company's observations and suggestions.

(2) When Franchisee and a landlord conclude negotiation of a definitive lease agreement, Franchisee will sign the lease and furnish Company a photocopy of the executed lease, including all exhibits, addenda and riders. Alternatively, if Franchisee purchases the site, Franchisee will furnish Company a photocopy of the recorded deed.

(c) **Pre-Construction Procedures.**

(1) Franchisee must retain an architect approved by Company to create full construction plans suitable to obtain a building permit. Within 45 days after Franchisee receives the Store-specific Approved Layout from Company, Franchisee's architect must submit for Company's review and approval a complete set of construction documents, including MEP specifications, for the Store. The drawings must be based on the standards and information Company provides, including Company's required Trade Dress package. Company will have 10 days after it receives these documents to review and either approve or return marked-up documents to Franchisee's architect for corrections and resubmission. Franchisee agrees to defer submitting the documents for permitting or construction bid, and signing contracts for the Store's construction, equipment, fixtures or signage until Franchisee has received Company's written approval of Franchisee's final construction documents. Franchisee's architect must provide a complete set of CAD files and one full set of stamped and permitted construction documents, including MEP specifications, to Company prior to the start of construction.

(2) Within 15 days after Company notifies Franchisee that it has approved the construction documents, Franchisee will submit for Company's review a minimum of three general contractors' bids from general contractors that the Company has approved for the Store's build-out, including a copy of the proposed construction contract submitted by each contractor. Company will have 10 days after it receives these documents to review and comment on the bids and contracts from the perspective of a client experienced in negotiating similar projects. However, Company will not provide legal or expert advice with respect to any provision of the construction contract.

(3) If Franchisee wishes to use an architect or a general contractor other than one Company has designated or approved, Franchisee must furnish Company a statement of the proposed vendor's qualifications as outlined in the Operations Manual. Company will have 10 days after it receives these documents either to advise Franchisee of any reservations Company has about the contractor's reputation or ability or to approve the vendor, and Company may charge Franchisee its then current management services fee plus an amount to reimburse Company for salaries, travel, lodging and

other out-of-pocket expenses for our personnel who perform the work. Company must approve the vendor selected by Franchisee before signing any contracts.

(4) Franchisee will select a contractor and negotiate the construction contract in good faith, and will give due consideration to Company's observations and suggestions. The construction contract must require the contractor to submit a schedule of construction and completion to Company, and to keep Company's management informed of any changes to the schedule.

(5) When Franchisee and a contractor conclude negotiation of a definitive construction contract, Franchisee will sign the contract and furnish Company a photocopy of the executed contract, including all exhibits, addenda and riders, including the time schedule to complete the construction of the Store Premises.

(d) **Construction and Operations.** In connection with the construction and operation of the Store, Franchisee agrees to fulfill the requirements, to perform the obligations and to observe the restrictions stated in this Section 7(d).

(1) Franchisee will construct, finish out, equip, furnish and decorate the Store in compliance with Company's equipment, Trade Dress, Information Systems and signage specifications and the construction documents Company approves in accordance with Section 7(c)(2). Franchisee will be responsible for providing digital photographs to Company for construction updates on a weekly basis and at any other time Company may request. Franchisee will not open the Store for business until all construction is complete, all inspections and permits are signed off, all equipment and Trade Dress is installed and operational, Franchisee has hired the required personnel before they begin training and the required personnel have received training certification, sufficient food inventory is in stock, and permission to open has been granted by Company's onsite Operations Specialist. After the Store opens, Franchisee will not alter its furniture, fixtures, equipment, signs or Trade Dress in any fashion without Company's express prior permission.

(2) Franchisee will affix to an exterior window or display prominently on an interior wall of the Store a decal or placard containing the following statement: "Independently owned and operated by _____ under a license from KF Franchising, Ltd." and never make a statement or representation to any person that is contrary to or inconsistent with Section 22 of this Agreement.

(3) Company requires that all Stores have a dedicated trained and certified General Manager. A General Manager must have completed a minimum of 220 hours of training for certification. Company requires that all Stores with extended hours that require more than one shift have two dedicated trained and certified Managers. If this Agreement relates to Franchisee's first Store, Company requires that Franchisee and three managerial-level individuals satisfactorily complete and receive certification from Company's current training program before the Store may open for business. If this Agreement relates to Franchisee's first Store and the Store has extended hours that require more than one shift, Company requires that Franchisee and four managerial-level individuals satisfactorily complete training and receive certification before the Store opens for business. If this Agreement relates to Franchisee's second Store, the General Manager may be one of the three initial certified trainees. If this Agreement relates to Franchisee's third or later Store, Company requires that an additional managerial-level individual, designated as the General Manager, satisfactorily complete training and receive certification before the Store may open for business. Managers for the Franchisee's second and subsequent Stores may be trained by Franchisee, but must satisfactorily complete and receive certification through Company's current certification program prior to the Store opening. Franchisee will ensure that the required personnel attend and satisfactorily complete the training program and that they receive certification before the Store opens for business. In the event that a Store's certified Manager leaves the employ of the Store, Franchisee will submit a replacement managerial-level individual who has

completed a minimum of 220 hours training to us for Manager certification within 30 days. Company may revise the required number of hours in each Certification Training Program by amendments to the Operations Manual.

(4) As soon as Franchisee obtains telephone, fax numbers and/or modem numbers for the Store, Franchisee will sign and deliver to Company an Assignment of Telephone Numbers for the numbers in the form attached to this Agreement as Exhibit E. If any of the Store's telephone numbers changes during the franchise's term, or if Franchisee adds additional lines for Delivery Service, a modem or other purposes, Franchisee will promptly sign and deliver to Company a new Assignment of Telephone Numbers for the new or additional number(s).

(5) Franchisee will open the Store for business not later than the Scheduled Opening Date specified beneath the signature block of this Agreement and will operate it continuously throughout the entire term of the franchise solely under the Kolache Factory trade name and System. If the Store's completion is interrupted by a natural disaster, fire or other casualty, labor dispute, materials shortage or similar event over which Franchisee lacks control, the Scheduled Opening Date will be extended for the time reasonably necessary to remedy the effects of the occurrence. Upon the occurrence of a Crisis Management Event, immediately inform Company by telephone or electronic means, must cooperate fully with Company with respect to Company's response to the Crisis Management Event, and must implement such remediation plan as may be instituted by Company, which may include Company requiring a temporary closure of the Store as part of the Crisis Management Event remediation plan.

(6) Franchisee will (i) comply with and adhere to the policies and procedures set forth in the Operations Manual, as revised and supplemented from time to time, (ii) follow Company procedures in the preparation, baking, storage, presentation and dispensing of kolaches, other authorized menu items and other authorized Store merchandise, (iii) purchase and use fresh, processed and prepackaged ingredients that satisfy or exceed the minimum grade or quality standards Company from time to time specifies; (iv) purchase from Company or a source Company designates and exclusively use Kolache Factory brand dough balls and other proprietary products; (v) purchase inventory and supplies only from suppliers Company designates or approves from time to time; (vi) follow Company's procedures for monthly reporting of sales, inventory, production and advertising; and (vii) follow Company's procedures for submission of vendors, suppliers or providers for approval who have not been previously approved or designated by Company, including the payment of a reasonable fee for such consideration by Company. Company has no obligation to approve additional vendors, suppliers or providers.

(7) Franchisee will provide appropriate training, supervision and security for all personnel employed in the Store, maintain standards of prompt and courteous customer service, and instruct all employees of the Store in the proper use and display of the Marks and the confidential handling of the Trade Secrets and the Operations Manual, as stated in Section 12. Notwithstanding the forgoing, Franchisor and Franchisee acknowledge and agree that Franchisor shall not, and shall have no right or authority to, control the employees of the Store or Franchisee's other employees. Franchisor shall have no right or authority with respect to the hiring, termination, discipline, work schedules, pay rates or pay methods of employees of the Store or of Franchisee. Franchisee acknowledges and agrees that all employees of the Store and of Franchisee shall be the exclusive employees of Franchisee and shall not be employees of Franchisor nor joint employees of Franchisee and Franchisor.

(8) Franchisee will ensure that all the Store's employees follow Company's grooming and dress code and wear the Kolache Factory uniform items developed by Company.

(9) Franchisee will notify Company promptly of any change in the General Manager, and send any new General Manager to attend and satisfactorily complete Company's training program within 30 days. Should Company find that Franchisee's certified General Manager is not up to Company

standards in product quality or management, Company may (at its choosing) require that General Manager attend training until standards are met.

(10) Franchisee will not use any third-party online and/or delivery food vendor without Company's prior written approval. Company may designate one or more approved third-party online and/or delivery vendors in Company's sole and absolute discretion and/or institute policies related to designation and use of any third-party online and/or delivery food vendor. Franchisee can request the approval of a third-party online and/or delivery vendor by notifying Company in writing and submitting such information and the draft agreement with such third-party online and/or delivery vendor as Company may request. Company may require Franchisee to pre-pay any reasonable charges connected with Company's review and evaluation of any proposal. Company will notify Franchisee of Company's decision within a reasonable time after Company's receipt of all required information and the third-party online and/or delivery vendor agreement. Company may approve, or revoke or deny approval of any third-party online and/or delivery vendor in Company's sole and absolute discretion. Designation of a third-party online and/or delivery vendor may be conditioned on factors, including without limitation, Company's right to obtain and verify gross sales placed through the third-party online and/or delivery vendor platform or one of Company's approved platforms, the amount of service charges paid to the third-party online and/or delivery vendor and the third-party online and/or delivery vendor's standards for handling food, order and delivery. If Company deem appropriate, Franchisee shall include Company as a party or third-party beneficiary to the delivery service agreement between the third-party online and/or delivery vendor and Franchisee. Failure to obtain Company's approval shall be a curable default under this Agreement for which Company may terminate this Agreement. In such event, Company have the right to conduct a full audit of Franchisee's sales in accordance with this Agreement. Notwithstanding the foregoing, nothing will be construed to require Company to approve any particular third-party online and/or delivery vendor, and to the extent permissible under then applicable law, Company will have the right to designate a single approved third-party online and/or delivery vendor or limit the number of approved third-party online and/or delivery vendor for Stores, as Company deem appropriate, and contract for rebates, discounts, allowances or other benefits with any such sole third-party online and/or delivery vendor or other approved third-party online and/or delivery vendor.

(11) Franchisee will offer all foods and beverages included on Company's standard menu, as revised from time to time, and will not offer any foods, beverages or other merchandise that is not included on Company's authorized Store merchandise list, as revised from time to time, without Company's prior written consent.

(12) Franchisee will imprint the Kolache Factory logo on all cups, containers, bags, take-out menus and other paper goods used in the Store in accordance with instructions contained in the Operations Manual, and will purchase items imprinted with the Kolache Factory logo only from suppliers Company designates or approves.

(13) Franchisee will purchase as they become available and display in the Store all (A) product identification materials, (B) point-of-purchase promotional materials, (C) promotional memorabilia, merchandise and prizes, and (D) other advertising and marketing materials that Company creates or authorizes for use by Store operators and (iii) participate in and pay any fees associated with any loyalty, gift card or similar program adopted by Company for use in the Kolache Factory Network, as Company may revise such program. Franchisee will purchase these materials from a source Company designates or approves, which may be Company.

(14) At Company's request, Franchisee will display in a prominent, accessible place a "franchise opportunity" display furnished by Company at its expense for the purpose of increasing public awareness of the availability of Store franchises.

(15) Franchisee will use the Marks, the Trade Secrets, the Operations Manual and other Copyrighted Materials in strict compliance with Section 12 and in a manner tending to promote the goodwill and public image of the Kolache Factory Network.

(16) Franchisee will follow Company procedures in maintaining and cleaning the Store's equipment and fixtures, and will maintain the customer seating, kitchen, bakery, storage and restroom areas of the Store in a safe and sanitary condition at all times.

(17) Franchisee will maintain the physical appearance and integrity of the Store in accordance with the repair, refurbishing and remodeling standards stated in the Operations Manual.

(18) Franchisee will permit Company representatives to conduct unannounced QSC Inspections of the Store at any time during normal business hours. If Company's representative questions the freshness, appearance or fitness for human consumption of any item displayed for purchase in the Store, Franchisee will immediately remove and destroy the questioned item. If Franchisee refuses to remove or destroy a questioned item, Franchisee's representative may peaceably seize and destroy the item without compensation or liability to Franchisee. Franchisee must also promptly correct any deficiency noted in a QSC report.

(19) Franchisee will maintain Store business hours and days of operation in accordance with System standards, unless Company grants a written exception.

(20) Franchisee will comply strictly with all federal, state and local laws and government regulations applicable to Franchisee's franchised business, including those relating to taxation, employment and promotion practices, employee wages, child and immigrant labor, disabled persons, workers' compensation, truth-in-advertising, occupational safety and health, and sanitation.

(21) Franchisee will (i) adopt and follow Company's fiscal year for accounting purposes, (ii) adopt and follow the accounting principles, policies and practices Company prescribes, including use of Company's standard chart of accounts and (iii) acquire, install and use the Information Systems Company specifies from time to time in the Operations Manual, and implement and maintain an approved Payment Card Industry (PCI) compliance program Company specifies from time to time in the Operations Manual. To the extent Company purchase and requires Franchisee to use software and other applications in the operation of the Store, Company may charge a software services fee in an amount the Company sets from time to time in the Operations Manual. The current software services fee is described in the Summary Page. Company will set the amount and timing of payment for the software services fee each year. Any payment that remains unpaid 30 days after the due date will bear interest from that date until paid at the rate of 18% per annum (or, if less, the highest rate permitted by applicable law).

(22) Franchisee will accurately calculate and report Gross Sales to Company at the times and through the procedures Company from time to time specifies (including electronic means). Franchisee acknowledges that Company may electronically poll the Store's Information Systems to obtain Gross Sales data, as well as other financial and operating information. Franchisee agrees to maintain continual data network access to the Store's Information Systems for use by Company.

(23) At Company's request, Franchisee will furnish Company copies of all federal and state income and sales tax returns filed by Franchisee with respect to the Store's income or sales.

(24) Franchisee will permit Company, at any time during the term of the franchise and for three years after it expires or terminates, to conduct a special audit of Franchisee's books and records relating to the Store's operation. To assist Company in planning and conducting its audit program, Franchisee expressly authorizes Company to obtain from any vendor with which Franchisee does business copies of invoices and other sales data related to Franchisee's account with the vendor. If an

audit establishes that Franchisee's royalty/marketing fee reports or profit and loss statements have understated Gross Sales for any fiscal year by more than 1%, Franchisee shall pay the audit's cost, including the travel, lodging and meal expenses of the persons who conduct the audit. Otherwise, Company will bear the audit's entire cost. Franchisee shall promptly pay Company any royalty and marketing fee deficiencies established by an audit, together with interest as provided in Section 14.

(25) Franchisee will maintain complete and accurate books and records relating to the operation of the Store in accordance with Section 7(d)(21), permit Company representatives to inspect such books and records at reasonable times and, within 45 days after the end of each fiscal year of the Store, submit to Company a balance sheet, income statement and statement of cash flow for the year then ended. These financial statements shall disclose separately the items specified by Company on forms it provides, and shall be prepared in accordance with the accounting principles and practices Company prescribes. If Franchisee is at any time required to furnish any lender, lessor, government agency or other person audited financial statements with respect to Franchisee's franchised business, Franchisee shall concurrently furnish Company a copy of such audited financial statements.

(26) (i) Franchisee will carry continuously during the term of the franchise insurance of the types (including worker's compensation and various special liability coverages), in the amounts and with the coverages the Operations Manual specifies from time to time. Until the Operations Manual specifies otherwise, Franchisee will carry general liability insurance with policy limits of \$1,000,000 per occurrence and \$2,000,000 aggregate, and with umbrella coverage of \$2,000,000. Each policy must (1) be obtained from an insurance carrier that has and maintains a Best's Insurance Reports rating of A, Class VIII, or better; (2) name Company as an additional insured and afford separate coverage to each named insured; (3) provide for a deductible of not more than \$500 per occurrence; (4) contain no provision that limits or reduces Franchisee's coverage on account of a claim against Franchisee by Company; and (5) provide for not less than 30 days' prior notice to Company of cancellation or non-renewal.

(ii) Franchisee shall furnish Company certificates of insurance to prove that such insurance coverage is in effect, both prior to the opening of the Store and within 10 days after each policy renewal date. If Franchisee fails to maintain the required insurance, Company may obtain coverage on Franchisee's behalf and charge the cost to Franchisee. Franchisee agrees to reimburse Company for the premium costs it incurs to provide such coverage, plus interest as provided in Section 14, within ten days after Company submits a statement for its costs.

(27) (i) Franchisee will indemnify, hold harmless and timely defend the Indemnified Parties from and against any and all claims, demands, legal proceedings, administrative inquiries, investigations and proceedings, damages, losses, judgments, settlements, fines, penalties, remedial actions, costs and expenses (including attorneys' fees) asserted against, incurred or sustained by any Indemnified Party, whether or not separately insured, that arise out of or are attributable to Franchisee's operation of the Store or the use of any Internet site or Intranet network Company develops.

(ii) Company may elect (but under no circumstance will be obligated) to undertake or assume the defense of any such claim, demand, inquiry, investigation or proceeding (an "Indemnified Matter"), and to conduct and supervise all settlement negotiations related to any Indemnified Matter. Company will pay the legal fees and other expenses it incurs in connection with the investigation, defense and settlement of any Indemnified Matter it undertakes to defend or assumes. If a proposed settlement of any Indemnified Matter will result in an admission of liability or financial contribution by Franchisee, Company will not settle the Indemnified Matter without Franchisee's participation and concurrence. Otherwise, Company's election to undertake or assume the defense or settlement of an Indemnified Matter will in no way or circumstance extinguish or diminish Franchisee's obligation to indemnify and hold the Indemnified Parties harmless.

(28) Franchisee will not, without Company's prior written consent, sell any interior or exterior sign bearing or representing any of the Marks, sell all or substantially all the Store's assets, or assign or sublease the Store's premises to any person or entity who has not agreed in accordance with Section 13 to continue operating a Kolache Factory Store in the premises.

(29) Franchisee will send at least one approved representative to Company's annual Franchisee Seminar. To the extent Company does not allocate monies from the Ad Fund to cover all or a portion of attendance costs, Franchisee will be responsible for the costs for its representative to travel to and attend Company's annual Franchisee Seminar, including any attendance fee charged by Company year to year. Franchisee may send additional representatives to the Franchisee Seminar at its sole cost.

8. Advertising and Promotions.

(a) Ad Fund.

(1) Company has established a separate and segregated advertising fund ("Ad Fund") that it administers for the purpose of enhancing the goodwill and public image of the Kolache Factory Network through advertising and promotions. All franchised Stores (but not Company-operated Stores) are obligated to make contributions to the Ad Fund. Franchisee agrees to make contributions to the Ad Fund in the manner (including payment by automatic debit), and at the rate Company establishes. Company may not establish an Ad Fund contribution rate in excess of 3% of annual Gross Sales.

(2) Company will use the Ad Fund for advertising and promotion purposes it deems appropriate, including (i) to create template and sample marketing materials relating to the Kolache Factory Network and the products Stores sell, (ii) to place and run advertisements, commercials and promotional materials in local, regional and national media, (iii) to pay for public relations projects intended to enhance the goodwill and public image of the Kolache Factory Network, (iv) to cover a portion of the costs for our annual Franchisee Seminar, and (v) to reimburse Company or its affiliates (based on reasonable allocations calculated by Company's management) (a) for salaries and other overhead expenses that are directly related to projects of a character described in clauses (i), (ii) and (iii), and (b) for part of the cost of maintaining the Kolache Factory Website, as authorized in Section 9(a)(3). However, Company may not use Ad Fund contributions to pay for those components of the Website that publicize the Kolache Factory franchise program or the sale of Kolache Factory franchises.

(3) Company may furnish Franchisee with certain Company-generated template or sample advertising and promotional materials developed through the Ad Fund. Franchisee must pay to create, print publish or run advertising materials in any local media that Franchisee pursues independently of the Ad Fund including, but not limited to, digital, newspapers, magazines, direct mailers, radio and television. Franchisee will not alter or reproduce any Company generated template or sample advertising or promotional materials without the express consent of the Company, and may not create, distribute or publish non-Company generated advertising and promotional materials without the express consent of the Company.

(4) Company intends to use Ad Fund contributions in a manner that provides marketing benefits to all Stores generally. However, Company reserves the right to allocate Ad Fund contributions to various permitted uses as it sees fit and does not guarantee that all or any specific Stores will receive similar media exposure or equal advertising benefits in view of regional differences in media costs, varying degrees of market penetration in different DMAs and other relevant factors.

(5) Company reserves the right to structure the Ad Fund's organization and administration in ways that, in Company's judgment, most effectively and efficiently accomplish the Ad Fund's objectives. Company may therefore organize or reorganize the Ad Fund as a separate non-profit corporation or other appropriate entity and transfer the Ad Fund's assets to the entity. If Company

establishes a separate entity to administer the Ad Fund, Franchisee agrees to become a member of the entity and, in that regard, to sign a participation agreement and take such other steps as Company reasonably specifies.

(b) Local Advertising.

(1) Franchisee will prepare and implement an annual local advertising plan and provide a copy to Company within 30 days before the end of the previous year. Franchisee is required to spend at least 2-3% of Gross Sales quarterly to advertise and promote the Store locally.

(2) Franchisee agrees to participate in all system-wide promotions Company originates and mandates. A portion of the costs associated with the development of these system-wide advertising and promotions programs will be deducted from the Ad Fund. Franchisee agrees to use only Company generated template or sample advertising and promotional materials as the base for Franchisee's local marketing materials which may include, but are not limited to, digital ads, print ads, radio/TV commercials, text and SMS messages, flyers, billboards and point-of-sale materials. Franchisee will not create, distribute, publish or broadcast any advertising or promotional materials not generated through Company's templates or samples without the express consent of Company. As outlined in Section 12(a)(6), Company reserves the right to approve in advance Franchisee's use of graphic, print or broadcast materials developed by Franchisee that feature any of the Marks.

(3) Within 30 days after the end of each fiscal quarter, Franchisee shall submit a Local Area Marketing ("LAM") Report to Company on a form Company provides. Each LAM Report shall show the amount Franchisee spent for local advertising and promotions during the preceding quarter and the way Franchisee spent those funds. Upon Company's request, Franchisee shall also submit documents substantiating that Franchisee incurred and paid particular expenditures during the quarter.

(c) Area Cooperatives.

(1) At the time the DMA in which the Store is located encompasses Stores operated by at least two owners, the owners in the DMA will, at Company's request and with its advice and assistance, form a cooperative advertising association among themselves (an "Area Cooperative") for the purpose of jointly advertising and promoting their Stores.

(2) If, in connection with an Area Cooperative's formation or functioning, its members are unable to reach agreement with respect to any disagreement over organization, administration, "spill" policy, contribution waivers or exceptions, budget or other matters that the members cannot resolve within 45 days, the issue will be referred to Company for resolution. Company's decision with respect to the issue's resolution will be binding on all members of the Area Cooperative. In addition, Company reserves the right to review each Area Cooperative's contribution rate on an annual basis and to disapprove a rate of less than 1% of Gross Sales.

(3) Franchisee agrees (i) to join, participate in, and actively support any Area Cooperative established in the Store's DMA, and (ii) to make contributions to each Area Cooperative on the payment schedule adopted by the Area Cooperative's members and at the contribution rate approved by Company.

9. Concerning the Internet.

(a) Internet Website.

(1) Company has established and plans to maintain an Internet Website that provides information about the Kolache Factory concept and the products and services that Stores offer. Company

will have sole discretion and control over the Website's design and contents. Company will have no obligation to maintain the Website indefinitely, but may dismantle it at any time without liability to Franchisee.

(2) The Website will include a series of interior pages that identify participating Stores by name, address, telephone number and e-mail address. Franchisee will not have the capability to modify its page(s).

(3) Franchisee agrees to pay an internet development fee towards the cost of the Website's maintenance and further development, which amount we set from time to time. The current amount and timing for payment of the internet development fee is described in the Summary Page. Company will set the amount and timing of payment for the internet development fee each year. Any payment that remains unpaid 30 days after the due date will bear interest from that date until paid at the rate of 18% per annum (or, if less, the highest rate permitted by applicable law). In addition or alternatively, Company may use part of the Ad Fund contributions that Company collects under Section 8(a) to maintain and further develop the Website.

(4) If Franchisee fails to pay when due any fees or other amounts payable to Company under this Agreement, Company may temporarily disable Franchisee's Web page(s) until such time as Franchisee pays its outstanding obligation in full.

(5) Franchisee will have no right, license or authority to use any of the Marks on or in connection with the Internet, except as stated in and permitted by this Section 9(a).

(b) Kolache Factory Intranet.

(1) Company may, at its option, establish and maintain a so-called Intranet through which members of the Kolache Factory network of Stores may communicate with each other and through which Company may disseminate electronic updates to the Operations Manual and other confidential information. Company will have no obligation to maintain the Intranet indefinitely, but may dismantle it at any time without liability to Franchisee.

(2) Company will establish policies and procedures for the Intranet's use. These policies, procedures and other terms of use will address issues such as (a) restrictions on the use of abusive, slanderous or otherwise offensive language in electronic communications; (b) restrictions on communications between or among Franchisees that endorse or encourage breach of any Franchisee's Franchise Agreement; (c) confidential treatment of materials that Company transmits via the Intranet; (d) password protocols and other security precautions; (e) grounds and procedures for Company's suspending or revoking a Franchisee's access to the Intranet; and (f) a privacy policy governing Company's access to and use of electronic communications that franchisees post on the Intranet. Company expects to adopt and adhere to a reasonable privacy policy. However, Franchisee acknowledges that, as administrator of the Intranet, Company can technically access and view any communication that any person posts on the Intranet. Franchisee further acknowledges that the Intranet facility and all communications that are posted to it will become Company's property, free of any claims of privacy or privilege that Franchisee or any other person may assert.

(3) Franchisee agrees to purchase and install all necessary additions to the Store's Information System and to establish and continually maintain electronic connection with the Intranet that allows Company to send messages to and receive messages from Franchisee. Franchisee's obligation to maintain connection with the Intranet will continue until the Franchise Agreement's expiration or termination (or, if earlier, until Company dismantles the Intranet).

(4) Franchisee agrees to pay an intranet development fee towards the cost of the Intranet's maintenance and further development, which amount we set from time to time. The current amount and timing for payment of the Intranet development fee is described in the Summary Page. Company will set the amount and timing of payment for the Intranet development fee each year. Any payment that remains unpaid 30 days after the due date will bear interest from that date until paid at the rate of 18% per annum (or, if less, the highest rate permitted by applicable law).).

(5) If Franchisee fails to pay when due any amount payable to Company under the Franchise Agreement, or if Franchisee fails to comply with any policy or procedure governing the Intranet, Company may temporarily suspend Franchisee's access to any so called chat room, bulletin board, list serve or similar feature the Intranet includes until such time as Franchisee fully cures the breach.

(c) **Social Media.** Company has sole discretion and control over any profiles using or relating to the Marks, or that display the Marks, that are maintained on social media outlets, including without limitation Facebook, Twitter, Instagram, Yelp and Google or other similar outlets that may exist in the future. Company may use part of the Ad Fund monies it collects under this Agreement to pay or reimburse the costs associated with the development, maintenance and update of such profiles. Company may (but need not) establish guidelines pursuant to which Franchisee may establish profiles or otherwise establish a presence on such social media outlets. In that event, Franchisee shall comply with the standards, protocols and restrictions that Company imposes from time to time on such use.

10. Royalties.

(a) In consideration for Franchisee's continuing use of the Marks and the System, Franchisee agrees to pay Company continuing royalties equal to 6% of Gross Sales.

(b) Royalties (and Ad Fund contributions under Section 8(a)) will be payable weekly by automatic debit of Franchisee's account. Franchisee will authorize Company and its bank to debit Franchisee's account directly by signing and delivering an Authorization Agreement for Preauthorized Payments in the form attached to this Agreement as Exhibit D. Royalties will be payable without notice or demand on Monday of each week with respect to Franchisee's Gross Sales for the week ending the preceding Saturday. By notice in writing to all franchisees, Company may from time to time change the payment interval, the payment date, and/or the manner of payment.

(c) Franchisee will not be entitled to withhold payment of royalties on account of Company's breach or alleged breach of its obligations under this Agreement; Company's performance under this Agreement constitutes no part of the consideration for Franchisee's obligation to pay royalties.

11. Term and Renewal.

(a) The franchise will continue for a primary term of 10 years from and after the Effective Date, subject to earlier termination in accordance with Sections 16 and 17.

(b) If, upon the expiration of the 10-year primary term, Franchisee is in full compliance with Franchisee's agreements and obligations under this Agreement, Franchisee shall have the option to renew the franchise for two additional terms of five years each by (1) notifying Company of Franchisee's intention to renew not earlier than 180 days nor later than 120 days before the primary term's scheduled expiration date, (2) signing Company's then current renewal form of Franchise Agreement (which will define Franchisee's subsequent renewal rights), (3) not later than 30 days before the primary term's scheduled expiration date, completing the remodeling, refurbishing and modernizing of the Store's interior and exterior, including its furniture, fixtures, signs, equipment, Information Systems and Trade Dress, to conform to the standards Company then stipulates, and (4) not later than the first day of the

renewal term, Franchisee delivers to Company an unconditional, general release of all claims Franchisee may have against Company and its affiliates..

(c) Franchisee's failure or refusal to comply with any of the four conditions to renewal stated in Section 11(b), each of which Franchisee acknowledges to be reasonable and material, will be interpreted as a conclusive, irrevocable election on Franchisee's part not to renew the term of the franchise.

(d) The relationship between Company and Franchisee during the renewal period will be governed by the provisions of Company's then current renewal form of Franchise Agreement, including those pertaining to royalties, advertising, competitive protection and concept modifications. Whether or not Franchisee actually signs a then current renewal form of Franchise Agreement, Franchisee will be conclusively presumed to have assented to and to have agreed to be bound by its terms by continuing to operate the Store for one day past the primary term's expiration date.

(e) If Franchisee does not qualify to renew, or elects not to renew, the franchise, Company will permit Franchisee to transfer the franchise to a qualified purchaser in accordance with Section 13. If, in the exercise of diligent, good faith efforts by Franchisee, the transfer cannot be completed before the franchise's scheduled expiration date, Company may, in its sole discretion, extend the franchise's term from month-to-month for so long as Company believes that Franchisee is continuing to make a conscientious effort to negotiate and complete a transfer. If Company allows Franchisee to extend in order to complete a transfer, Franchisee will operate the Store during the interim period in accordance with Company's then current form of Franchise Agreement.

(f) If Franchisee does not qualify to renew, or elects not to renew, the franchise and it therefore expires, immediately after expiration, Franchisee must comply with the requirements of Section 17(a), and Company will have the rights and remedies provided in Sections 17(a) through 17(j).

12. Use of Intellectual Property.

(a) **Marks and Copyrighted Materials.** Franchisee acknowledges that Company is authorized by law to prevent the unauthorized use of the Marks, to control the quality of goods and services associated with the Marks, and to control the copying and distribution of the Copyrighted Materials. Recognizing the importance to Company and other members of the Kolache Factory Network of the protection and preservation of the Marks and Copyrighted Materials, Franchisee agrees to perform and abide by the following provisions:

(1) Franchisee acknowledges that Company is the lawful and rightful owner of each and all of the Marks and the Copyrighted Materials, that Franchisee's interest in the Marks and the Copyrighted Materials is solely that of a licensee, and that all uses of the Marks and the Copyrighted Materials by Franchisee will be attributed to Company for purposes of trademark and copyright law. Franchisee unconditionally disclaims any ownership interest in any of the Marks and the Copyrighted Materials.

(2) Franchisee shall not use "Kolache", "Kolache Factory" or any abbreviation, acronym or variation of those words as part of its name or as part of the name of any Business Entity in which Franchisee owns or holds an interest. However, Franchisee may, if required by law, file an assumed name or fictitious name certificate to the effect that Franchisee is operating the Store under a trade name that includes the Kolache Factory service mark.

(3) Franchisee shall not use any of the Marks or the Copyrighted Materials in connection with the advertisement, promotion, sale or distribution of any menu item not listed on Company's approved menu, any merchandise not listed in Company's authorized Store merchandise list,

or any service not customarily offered by Stores. Specifically, Franchisee shall not use menus, guest checks, carry-out containers, discount coupons, labels or other materials bearing the Kolache Factory trademark, service mark or logo to advertise, promote, sell or distribute any unapproved merchandise, product or service.

(4) Franchisee shall not copy, distribute or otherwise disseminate any of the Copyrighted Materials in violation of the restrictions and limitations imposed by this Agreement.

(5) Franchisee shall not use any of the Marks or the Copyrighted Materials in connection with the development or operation of any Store (except the one covered by this Agreement) until Company and Franchisee have both signed a Franchise Agreement for the additional Store, or of any Special Outlet until Company has given Franchisee written authorization to install and operate the Special Outlet.

(6) Franchisee shall (i) adopt and use all additional trade names, trademarks, brand names, copyrighted materials, slogans, commercial symbols and logos Company develops from time to time, (ii) use all the Marks in the precise form Company prescribes, and (iii) observe Company directions regarding the use, copying and distribution of the Copyrighted Materials, the presentation of the Marks and the manner of the Marks' display and use. Franchisee shall promptly abandon and discontinue the use of any Mark or Copyrighted Materials that Company judges to be obsolete or no longer characteristic of the image Stores should project. Franchisee shall submit to Company all paper goods, advertisements and promotional materials not furnished by Company for its approval prior to use.

(7) Franchisee shall not use any of the Marks on any goods and/or for any services otherwise than in compliance with specifications Company issues from time to time, and with such other quality control measures that Company may adopt to promote and defend the goodwill associated with the Marks.

(8) Franchisee shall not knowingly permit, and shall promptly report to Company, any apparently unauthorized use of a Mark and any apparently unauthorized use or copying of any Copyrighted Materials by any person, or the use by any person of a trade name, trademark, service mark or symbol that might be construed as an infringement of any Mark or as unfair competition or passing-off at common law, and shall actively cooperate with the Company in the investigation of infringement claims and in discovery and trial proceedings related to infringement actions. Company reserves the right to make the final determination of infringement or other unlawful use, to conduct all legal proceedings relating to the Marks and the Copyrighted Materials, and to compromise or settle all infringement claims.

(9) At no time shall Franchisee make any written or oral admission that a Mark or any of Company's copyrights is in any way invalid or infringes the rights of any person or is open to any other form of attack, but shall promptly notify Company of any allegation of invalidity or infringement of which Franchisee becomes aware. Company intends to defend its rights in the Marks and the Copyrighted Materials vigorously, but does not warrant to Franchisee that Company's ownership of any of them is incontestable or that they do not infringe or conflict with the rights of any third party.

(10) Upon the expiration or termination of the franchise, Franchisee shall immediately discontinue all further uses of the Marks and Copyrighted Materials and shall take appropriate action to remove the Marks from the premises in which the Store is located, to cancel any advertising relating to Franchisee's use of the Marks or the Copyrighted Materials, including yellow pages listings, and to cancel or withdraw any assumed or fictitious name filings covering Franchisee's use of Company's trade name. Franchisee acknowledges and agrees that failure or refusal to comply fully with these requirements will constitute willful trademark and copyright infringement.

(b) **The System, Trade Secrets and Operations Manual.** Franchisee acknowledges that the System and the Trade Secrets belong exclusively to Company and that the ideas and information in the Operations Manual are Company's sole and exclusive property. Franchisee further acknowledges that the unauthorized disclosure or use of any confidential element of the System, any Trade Secret or any other information the Operations Manual contains may adversely affect the business, competitive position and goodwill of Company and its franchisees. Accordingly, Franchisee agrees to perform and abide by the following provisions and restrictions, each of which shall survive the expiration or termination of this Agreement and shall be perpetually binding upon Franchisee.

(1) Franchisee shall hold the elements of the System, the Trade Secrets and the contents of the Operations Manual in strict confidence, shall not disclose any Trade Secret or any operating or management procedure to any person or business entity other than Franchisee's General Manager and bona fide employees of the Store to whom such disclosure is necessary in relation to their job duties, and shall instruct and routinely remind Franchisee's employees that the System, the Trade Secrets and the contents of the Operations Manual are confidential and may not be disclosed or appropriated. If Franchisee is a corporation, it will not disclose any element of the System, any of the Trade Secrets or the contents of the Operations Manual, or make the Operations Manual available, to any shareholder, director or officer of Franchisee other than its General Manager and other senior executive officers, if any, who are actively and regularly involved in the Store's management. If Franchisee is a partnership or limited liability company, it will not disclose any element of the System, any of the Trade Secrets or the contents of the Operations Manual, or make the Operations Manual available, to any general or limited partner or to any member of Franchisee other than its General Manager and other general partners and equity owners, if any, who are actively and regularly involved in the Store's management.

(2) Franchisee shall not use any element of the System, any of the Trade Secrets or the operating, management or marketing procedures the Operations Manual contains in connection with the operation of any establishment or enterprise other than the Store, and shall promptly discontinue use of the System, the Trade Secrets and the operating, management and marketing procedures the Operations Manual contains upon the expiration or termination of the franchise.

(3) Franchisee shall not, without Company's prior written consent, copy or permit any person to copy or reproduce any part of the Operations Manual and any other printed, graphic or audio/visual item designated by Company as containing Trade Secrets or otherwise permit their use or inspection by any person other than Franchisee, the General Manager, bona fide employees of the Store to whom such disclosure is necessary in relation to their job duties, and authorized Company representatives.

(4) Franchisee acknowledges and agrees that the electronic version of the Operations Manual on display on Company's Intranet from time to time constitutes the standard, official version for purposes of resolving any question or dispute concerning the Operations Manual's contents.

(5) Franchisee shall obtain from each of Franchisee's General Managers, supervisors and managerial level employees of the Store a confidentiality agreement and non-compete agreement that is valid and enforceable under the laws of the state in which the Store operates and that imposes the restrictions and limitations of this Section 12(b) on each such individual for the longest period applicable law permits. Each confidentiality agreement shall designate Company as a third party beneficiary and shall entitle Company to enforce its provisions directly against the signatory General Manager, supervisor or manager.

(6) Franchisee shall keep the Operations Manual and any other electronic, web-based, printed, graphic or other audio/visual item designated by Company as containing Trade Secrets in

the Store at all times and shall promptly return them to Company upon the expiration or termination of the franchise.

(7) Franchisee expressly acknowledges that all employee training materials (including video cassettes and CD-ROM disks) and all computer programs developed by Company or in accordance with its specifications contain information, embody procedures or facilitate business practices that are proprietary to Company and fall within the parameters of its Trade Secrets.

(8) Franchisee acknowledges and agrees that the System does not include any personnel policies or procedures or security-related policies or procedures that Franchisor (at its option) may make available to Franchisee in the Operations Manual or otherwise for Franchisee's optional use. Franchisee will determine to what extent, if any, personnel or security-related policies and procedures might apply to operations at the Store. Franchisor neither dictates nor controls labor or employment matters for franchisees and their employees and Franchisor is not responsible for the safety and security of Store employees or patrons.

(c) Internet Domain Name and Intranet Network.

(1) Franchisee acknowledges that Company is the lawful, rightful and sole owner of the www.kolachefactory.com, www.kolachefactory.org, www.kolachefactory.net and www.kolachefactoryto.go.com domain names, and unconditionally disclaims any ownership interest in those or any colorably similar Internet domain names. Franchisee agrees not to register any Internet domain name in any class or category that contains the words Kolache, Kolache Factory or any abbreviation, acronym or variation of those words.

(2) If and when Company develops an Intranet network through which Company and its franchisees can communicate by e-mail or similar electronic means, Franchisee agrees to use the facilities of the Kolache Factory Intranet in strict compliance with the standards, protocols and restrictions Company includes in the Operations Manual. Franchisee especially recognizes the crucial importance of a user's not transmitting confidential information, documents or data via the Kolache Factory Intranet without first encrypting the transmission with the encryption program Company adopts. Franchisee also recognizes the importance of a user's refraining from making derogatory, defamatory or libelous statements in an Intranet transmission.

13. Transfers.

(a) **Limitations on Transfer.** Franchisee acknowledges that the integrity of the System and the stability of the Kolache Factory Network depend on the business qualifications, financial capabilities, honesty and integrity of Company's franchisees. Franchisee further acknowledges that Company's lack of opportunity to evaluate and approve each potential franchisee's qualifications and the terms of each proposed transfer could irreparably damage the Kolache Factory Network. Consequently, Franchisee agrees not to sell, assign, transfer, give away, pledge, mortgage or otherwise dispose of any interest in the Store, the franchise or Franchisee's rights under this Agreement without Company's prior written consent. If Franchisee is a Business Entity, any sale, transfer or other disposition of any equity interest in Franchisee (except a limited partnership interest) shall be considered a transfer covered by and subject to the terms and conditions of this Section 12. Any transfer lacking Company's prior written consent or that otherwise violates the restrictions in this Section 12 will be ineffective against Company and will constitute a default under Section 16(c)(2).

(b) **Conditions to Voluntary Transfer of Rights.** Franchisee may not assign or transfer the franchise before the Store opens for business under any circumstances except those described in Section 13(f). After the Store opens, Company's consent to a voluntary disposition of Franchisee's interest in the franchise or under this Agreement will not be unreasonably withheld, provided that:

(1) At the time of transfer, Franchisee is in full compliance with Franchisee's obligations under this Agreement, including payment of all monetary obligations due Company.

(2) The proposed transfer or other disposition involves the complete disposition of the franchise, and Franchisee relinquishes the franchise and related rights under this Agreement in writing.

(3) Franchisee returns the Operations Manual and all Copyrighted Materials to Company.

(4) The transferee meets Company's standards for qualifying as a new Store Franchisee.

(5) Franchisee furnishes Company a copy of the contract of sale, including price and payment terms, and Company, in its sole discretion, determines that the transferee will be able to satisfy any debt obligations to Franchisee and still derive a reasonable profit from the Store's operation.

(6) The transferee provides Company pro forma profit and loss and cash flow projections for the 24 months following the transfer (including provision for principal and interest on any obligations payments to Franchisee). These projections must demonstrate to Company's reasonable satisfaction that the transferee can operate the Store without experiencing a loss or negative cash flow. If these projections, as adjusted to take into account factors Company points out, indicate that the transferee may experience a loss or negative cash flow, but Franchisee and the transferee prevail upon Company to approve the transfer anyway, the transferee must waive any claims against Company related to Company's approval of an economically questionable transaction.

(7) The transferee executes then current forms of Franchise Agreement (which will limit the term of the transferee's franchise to the unexpired term of Franchisee's franchise), Assignment of Telephone Numbers, Authorization Agreement for Preauthorized Payments, and other collateral agreements Company may then require.

(8) The transferee provides Company a waiver and release with respect to liability for any financial data, earnings claims, representations and other information Franchisee or its representatives provided the transferee.

(9) Each general partner or holder of 15% or more of the transferee's equity executes a Guaranty and Acknowledgment (a "Guaranty") in the form appended to this Agreement.

(10) The transferee and the transferee's General Manager satisfactorily complete Company's training program.

(11) Company receives a \$6,000 transfer fee from either the transferor or the transferee.

(12) If Company agrees to release Franchisee or any other person from further liability under this Agreement or under a Guaranty, Franchisee and each such other person must also give Company an unconditional, general release of all claims they may have against Company and its affiliates.

(13) The transferee must agree upgrade and refresh the Store's Trade Dress and equipment package to comply with then current requirements for new Stores.

(c) **Involuntary Transfers.** No involuntary transfer or partitioning of Franchisee's interest in the franchise or under this Agreement, whether in connection with a bankruptcy, foreclosure, divorce or other proceeding, will be effective against Company unless and until the transferee (1) furnishes Company a signed Guaranty under which the transferee agrees to be jointly and severally liable for the payment of Franchisee's monetary obligations under this Agreement, whether or not such obligations are then delinquent, (2) agrees in writing to be personally bound by the confidentiality provisions and restrictive covenants in this Agreement, and (3) unless the transfer encompasses Franchisee's total interest in the franchise and under this Agreement, irrevocably designates and appoints Franchisee to be the transferee's agent and attorney-in-fact with whom Company may deal for all purposes expressed in or contemplated by this Agreement.

(d) **Conditions to Equity Transfer.** Company will not permit the transfer of an equity interest in a corporate, partnership or limited liability company franchisee before the Store opens for business under any circumstances except those described in Section 13(f). After the Store opens, Company's consent to a voluntary or involuntary sale, assignment or transfer of an equity interest in a franchisee that is a Business Entity will not be unreasonably withheld, provided that:

(1) At the time of transfer, Franchisee is in full compliance with its obligations under this Agreement, including payment of all monetary obligations due Company.

(2) Each proposed transferee of a general partnership interest in a partnership Franchisee and each proposed transferee of a 15% or greater interest in a corporate or limited liability company Franchisee's equity meets Company's standards for qualifying as a new Store Franchisee and delivers a signed Guaranty to Company.

(3) If the transfer involves 50% or more of the equity interest in Franchisee, the transferees comply with Sections 13(b)(5), 13(b)(6), 13(b)(8), 13(b)(9) and 13(b)(10).

(4) If Company agrees to release Franchisee from further liability under this Agreement or its owners from further liability under a Guaranty, Franchisee and each of its owners must also give Company an unconditional, general release of all claims they may have against Company and its affiliates.

(e) **Waiver of Interference Claims.** Franchisee acknowledges that Company has legitimate reasons to evaluate the qualifications of potential transferees and to analyze and critique the terms of their purchase contracts with Franchisee. Franchisee also acknowledges that Company's contact with potential transferees for the purpose of protecting its business interests will not constitute improper or unlawful conduct. Franchisee expressly authorizes Company to investigate any potential transferee's qualifications, to analyze and critique the proposed purchase terms with the transferee, and to withhold consent to economically questionable transactions. Franchisee waives any claim that action Company takes in relation to a proposed transfer to protect its business interests constitutes tortious interference with contractual or business relationships.

(f) **Special Transfers.**

(1) If Franchisee is an individual or married couple who at any time advises Company that Franchisee wants to assign the franchise to a Business Entity in which Franchisee will own a 100% voting equity interest, Company will consent to the assignment and waive payment of a transfer fee and its right of first refusal under Section 13(g) upon its receipt of such documentation and information concerning the Business Entity and its equity owners as Company may reasonably request. The required documentation will include, without limitation, (i) a certified list of the Business Entity's stockholders, partners, members or other beneficial owners (designating the amount and percentage of stock or units of beneficial ownership each equity owner owns), (ii) a Guaranty signed by each holder of 15% or more of the Business Entity's equity securities, and (iii) an express assumption by the Business Entity of Franchisee's obligations under this Agreement.

(2) If Franchisee is a Business Entity, Company will consent to assignments and transfers of ownership interests among Franchisee's original investors and waive payment of a transfer fee and its right of first refusal under Section 13(g) upon its receipt of such documentation and information concerning the assignment or transfer and the resulting ownership of Franchisee as Company may reasonably request. The required documentation will include, without limitation, a Guaranty signed by each holder of 15% or more of a Business Entity Franchisee's stock or units of beneficial ownership who has not previously signed a Guaranty. If Company agrees to release any retiring investor from further liability under a Guaranty, the retiring investor must also give Company an unconditional, general release of any claims the investor may have against Company.

(3) If Franchisee is an individual, Franchisee may effect a transfer under Section 13(f)(1) and simultaneously or later transfer a cumulative total of not more than 49% of the Business Entity's capital stock or units of beneficial ownership to any combination of Franchisee's spouse, natural or adopted children or an inter vivos (lifetime) trust created for the benefit of Franchisee's spouse and/or children. Company will consent to the transfer and waive payment of a transfer fee and its right of first refusal under Section 13(f) upon its receipt of such documentation and information concerning the transfer and the resulting ownership of the Business Entity's stock or units of beneficial ownership as Company may reasonably request. The required documentation will include, without limitation, (i) a certified list of the Business Entity's equity owners (designating the amount and percentage of stock or units of beneficial ownership each equity owner owns), and (ii) a Guaranty signed by each holder of 15% or more of the Business Entity's equity who has not previously signed a Guaranty.

(4) If Franchisee is a Business Entity, each of Franchisee's equity owners may transfer a cumulative total of not more than 49% of his or her ownership interest in Franchisee to any combination of the person's spouse, natural or adopted children or an inter vivos trust created for the benefit of the person's spouse and/or children. Company will consent to the transfer and waive payment of a transfer fee and its right of first refusal under Section 13(g) upon its receipt of such documentation and information concerning the transfer and the resulting ownership of Franchisee as Company may reasonably request. The required documentation will include, without limitation, (i) a certified list of the Franchisee's equity owners (designating the amount and percentage of stock or units of beneficial ownership each person owns), and (ii) a Guaranty signed by each holder of 15% or more of Franchisee's equity who has not previously signed a Guaranty.

(g) **Right of First Refusal.** Notwithstanding Sections 13(b), 13(c) or 13(d), Franchisee may not voluntarily or involuntarily transfer or otherwise dispose of any interest in the franchise or permit the sale, assignment or transfer of a controlling equity interest in Franchisee without first offering in writing to sell the interest to Company upon the terms and conditions, including price and payment terms, that are recited in a bona fide written offer the proposed seller obtains. Franchisee must furnish Company with a copy of the written offer, together with (1) a recent balance sheet of the Store (or of Franchisee if it is a Business Entity), (2) copies of Franchisee's building and equipment leases, (3) a schedule of notes and

trade accounts then payable by Franchisee, and (4) copies of any other information that Franchisee or the proposed seller furnishes to the offeror. Company shall have 30 days following its receipt of Franchisee's written offer and related information to accept or reject it, and at least 30 additional days to consummate the purchase.

(h) Purchase Upon Franchisee's Death or Disability.

(1) This Section 13(h) applies only if (i) an individual Franchisee, a general partner owning a 50% or greater profits interest in a partnership Franchisee, or a beneficial owner owning 50% or more of the outstanding capital stock or units of beneficial ownership of a corporate or limited liability company Franchisee dies or becomes disabled during the term of the franchise, and (ii) the death or disability results in a change in executive-level responsibility for managing the franchised business.

(2) During the first 120 days after the death or disability occurs, Company will evaluate the new management's willingness and ability to operate the Store in compliance with this Agreement. By the end of the 120-day evaluation period, Company will decide whether the new management is qualified to manage the Store and will notify management of its decision. As conditions to continuing the franchise relationship, each new proprietor, general partner or beneficial owner of 15% or more of Franchisee's equity must furnish Company a signed Guaranty, and any deficiency in Franchisee's compliance with the requirements of this Agreement must be cured. Further, Company may require the new management to attend and satisfactorily complete the training program provided under Section 6(a)(3).

(3) If any of the conditions stated in Section 13(h)(2) are not satisfied, or if Company decides that the new management has not adequately demonstrated its business qualifications or commitment to the franchise relationship, the owners of the franchise will have 120 days after delivery of Company's notice to sign a binding contract to sell the franchise to a buyer approved by Company in accordance with, and in a transaction structured to comply with, Section 13(b) or 13(d), whichever is applicable. The proposed sale will be subject to Company's right of first refusal under Section 13(g).

(4) If any of the franchise's owners fail to sign a binding contract of sale before the 120-day selling period expires, or (i) if a contract is signed, but the proposed sale is not concluded within 30 days after Company relinquishes its option under Section 13(g), Company will have an additional option during the next 30 days to purchase the interest in the franchise or in the Franchisee the deceased or disabled person held at the date of death or disability. The purchase price for the interest will be its fair market value, determined through negotiations or by appraisal. Unless otherwise agreed by the parties, the purchase price will be payable in cash at closing. If Company delivers written notice of its intention to exercise the option within the 30-day period, the option will be considered effectively exercised whether or not the purchase is actually consummated within the 30-day period.

(5) If the parties fail to agree on a purchase price for the interest within 21 days after delivery of Company's notice, the issue will be submitted as promptly as possible to a group of three appraisers who are experienced in valuing similar franchises, one of whom will be selected by Company, another by the decedent's estate, and the third by the first two appraisers. All parties agree to submit to such appraisal proceedings, to be bound by the decision of a majority of the appraisers and to share payment of the appraisers' fees and expenses equally.

(i) Assignment by Company. Company may assign this Agreement and its rights and obligations as franchisor of the Kolache Factory Network to any assignee who, in Company's sole judgment and discretion, is capable of performing Company's obligations under this Agreement in a reasonably competent manner. Nothing in this Agreement will be interpreted to place any restrictions on the issuance, sale or transfer of any shares of Company's capital stock.

14. Interest on Delinquent Accounts.

If Franchisee fails to make any royalty, marketing fee, Ad Fund contribution or trade account payment to Company within five business days after it is due, the amount payable will bear interest from the date it became due through the date of payment at the lesser of (i) 18% per annum, or (ii) the highest lawful rate of interest permitted by applicable Texas and federal law. Nothing in this Agreement shall obligate Franchisee or any guarantor of Franchisee's obligations to pay, or entitle Company to collect, interest in excess of the maximum rate applicable law permits. If, for any reason, Company charges or receives interest in excess of the maximum rate permitted by applicable law, the excess shall be applied as a payment against the principal amount of Franchisee's other obligations under this Agreement. If no other obligations are due, Company shall promptly refund the excess payment to the party that paid it.

15. Store Relocation.

(a) If the lease for the Store expires or is terminated before the end of the franchise's term, Franchisee may move the Store to another location chosen in accordance with the site selection procedure outlined in Sections 6(a) and 7(b). The new location (i) must be in the original Store's general trade area (as determined by Company in its sole judgment), and (ii) may in no case infringe another Store's protected Trade Area. When Company approves the location for the new Store, Company will prepare a new Summary Page that shows the street address of the new Store and a new Exhibit B that describes the new Store's Trade Area. The new Summary Page and Exhibit B will replace the original Summary Page and Exhibit B for all purposes of this Agreement, including that of identifying the area in which Franchisee will enjoy competitive protection pursuant to Section 4.

(b) If Franchisee loses possession of the original Store's premises because the lease expired by its terms, or on account of condemnation or eminent domain proceedings, or as the result of a default termination, Franchisee must initiate the relocation procedure in time to lease, build-out and open the new Store for business within 60 days after the original Store closes. If Franchisee's lease is terminated on account of a fire or other casualty, Franchisee must initiate the relocation procedure in time to lease, build-out and open the new Store for business within 120 days after the lease for the original Store terminates.

16. Default.

(a) If any event or condition listed in this Section 16 (an "Event of Default") occurs, Franchisee will be in default under this Agreement; the occurrence of an Event of Default is not predicated on notice of default by Company. Company's failure to take prompt action with respect to a particular Event of Default will not constitute a waiver of that or any subsequent Event of Default.

(b) Following are Events of Default that Franchisee (or another responsible party) may cure by taking appropriate remedial action within a prescribed time after Company demands remedial action. Unless Franchisee (or another responsible party) cures such an Event of Default before the end of the indicated remedial period, Company may terminate the franchise or take any of the other actions Section 17 permits. If the Event of Default is cured to Company's satisfaction before Company gives Franchisee notice of termination, Company will not proceed under Section 17.

(1) Franchisee fails to locate and either lease or purchase an approved site for the Store within six months after the Effective Date, and neither Company nor Franchisee terminates the franchise within the following 30 days. REMEDY – Franchisee must complete the site selections procedures and obtain lawful possession of an approved site within 30 days after written notice from Company.

(2) Franchisee fails to construct and open the Store in compliance with Sections 7(c) or 7(d)(5), or to complete Company's training program in accordance with Section 7(d)(3). REMEDY - Franchisee must complete any unfulfilled requirement within 15 days after Company notifies Franchisee in writing of the action to be taken.

(3) Franchisee fails to fulfill any requirement, to perform any obligation, or to observe any restriction set forth in Sections 5, 7(a), 7(d)(1), 7(d)(2), 7(d)(4), 7(d)(6) through 7(d)(9), 7(d)(11) through 7(d)(14), 7(d)(16), 7(d)(17), 7(d)(19) through 7(d)(21), 7(d)(25) or 7(d)(26) to the extent not expressly covered by another default. REMEDY - Franchisee must correct any element of noncompliance within 20 days after Company notifies Franchisee in writing of the remedial action to be taken.

(4) Franchisee fails to pay any trade obligation due to a vendor with whom Company or any of its affiliates does business, as a result of which the vendor withholds or threatens to withhold the sale of goods or services, or withdraws or threatens to withdraw the availability of normal trade terms, to Company, any Company affiliate or another franchisee. REMEDY - Franchisee must pay the obligation in full within 7 days after Company makes written demand for payment, unless Franchisee is actively contesting the amount or validity of the vendor's claim in good faith and promptly furnishes Company a statement of the reasons Franchisee is withholding payment and the action Franchisee is taking to resolve the dispute. So long as Company concurs that Franchisee is actively contesting the claim in good faith, Franchisee may continue withholding payment of the disputed amount until the dispute is resolved.

(5) Franchisee fails to take appropriate action to correct any deficiency noted in any QSC Inspection report within 10 days after receiving a copy of the report. REMEDY - Franchisee must initiate appropriate corrective action within five business days after Company notifies Franchisee in writing of the condition to be corrected and must complete the corrective action within a reasonable time.

(6) Franchisee fails to submit when due a report required by Section 7(a)(4) or a financial statement required by Section 7(d)(25), or to furnish a tax return required by Section 7(d)(23) promptly after Company requests it. REMEDY - Franchisee must submit the report, financial statement or tax return within 10 days after Company makes written demand upon Franchisee for its submission.

(7) Franchisee fails to fulfill any requirement or to perform any obligation set forth Section 5 with respect to System modifications, in Section 7(a) with respect to Charter Documents provisions, or in Section 8 with respect to advertising and promotions (other than a failure to make Ad Fund or Area Cooperative contributions, which are covered by Section 16(c)(1)). REMEDY - Franchisee must correct the failure or breach within 20 days after Company gives Franchisee written notice specifying the default.

(8) Franchisee or any other Person Bound engages with any unauthorized third-party online and/or delivery food vendor in violation of Section 7(d)(10); fails or refuses to honor a request for indemnification under Section 7(d)(27); breaches any restriction or obligation set forth in Section 9, Section 12(c) or any related Terms of Use agreement; breaches any covenant or obligation set forth in Sections 12(a), 12(b)(5), or 12(b)(6), or otherwise makes any unauthorized use of a Mark, an item of Copyrighted Materials or an element of the System. REMEDY - The breaching party must remedy the breach, honor the request or permanently cease the unauthorized use within 10 days after Company makes written demand upon Franchisee to take specified curative action.

(9) Franchisee asserts a claim to the Kolache Factory domain name, any Mark, any item of Copyrighted Materials or any element of the System adverse to Company's interests. REMEDY - Franchisee must unconditionally withdraw the claim within 10 days after Company makes written demand that Franchisee do so.

(10) The lease for the Store expires or is terminated and Franchisee fails to relocate the Store in accordance with Section 15. REMEDY - Franchisee must reopen the Store in another approved location within 15 days after Company makes written demand that Franchisee do so.

(11) Franchisee knowingly engages in any activity or business practice that Company reasonably considers detrimental to the goodwill and public image of the Kolache Factory Network. REMEDY - Franchisee must permanently cease the activity or business practice within 7 days after Company makes written demand upon Franchisee to cease any activity specified in the notice.

(12) Franchisee purchases or uses any unapproved food products in the preparation and serving of Kolaches or other food products at the Store. REMEDY - Franchisee must permanently cease the use of the unapproved food products within 24 hours after Company makes written demand upon Franchisee to cease any such unapproved use specified in the notice.

(13) Franchisee fails to comply with Company's then current minimum Store opening and operating days and/or hours. REMEDY - Franchisee must recommence adherence to Company's then current minimum Store opening and operating days and/or hours within 24 hours after Company makes written demand upon Franchisee to cease any such unapproved use specified in the notice.

(c) Following are Events of Default that Franchisee can cure only by taking voluntarily remedial action of the indicated character before Company gives Franchisee notice of termination or, with respect to the second Event of Default, a transfer occurs.

(1) Franchisee fails to pay in full when due any royalty or Ad Fund contribution in accordance with Section 10(b), any Area Cooperative contribution in accordance with Section 8, any Internet or Intranet maintenance fee in accordance with Section 9, or any trade account (including shipping charges) payable to Company or its affiliates. ACTION - Franchisee must make payment in full, with interest as provided in Section 14, before Company gives Franchisee notice of termination.

(2) Franchisee or any other Person Bound either (i) fails to observe or comply with the requirements of Section 13 in connection with any sale, assignment or transfer, or (ii) makes a material representation in any transfer request or document in support of a transfer request. ACTION - Franchisee must correct all elements of non-compliance, including misrepresentations, before the sale, assignment or transfer is completed (including correction of misrepresentations in time for Company to have a reasonable opportunity to consider and act on the corrected information).

(3) Franchisee or any person acting at Franchisee's direction either refuses to remove and destroy or interferes with a peaceable attempt by Company's representative to remove and destroy any item the freshness, appearance or fitness for human consumption of which is questioned during a QSC inspection. ACTION - After an oral reminder of this Section's contents and consequences by Company's representative, Franchisee must remove and destroy or allow Company's representative to remove and destroy the questioned item before Company's representative completes the QSC inspection and leaves the Store.

(d) Following are Events of Default that are irreversible and cannot be cured; Franchisee will have no opportunity to cure these Events of Default.

(1) Franchisee or any other Person Bound breaches the non-competition covenant in Section 19 or the covenants concerning use of the System and the Operations Manual in Sections 12(b)(1), 12(b)(2), or 12(b)(3).

(2) Franchisee sells the Store's assets or transfers possession of its premises in violation of Section 7(d)(28), or abandons the Store. Franchisee will be conclusively presumed to have abandoned the Store if Franchisee fails to open it for retail trade during normal business hours on more than three consecutive days or on more than four of any 10 consecutive days, in either case excluding periods the Store is undergoing major renovations or remodeling in accordance with a schedule Franchisee has worked out with Company.

(3) Franchisee or any other Person Bound tampers with or disables the Store's Information Systems or Company's ability to access them, or refuses to permit Company to conduct a QSC Inspection permitted under Section 7(d)(18), an audit permitted under Section 7(d)(24) or a financial records inspection permitted under Section 7(d)(25), or to electronically poll the Store's Information Systems in accordance with Section 7(d)(22).

(4) Franchisee intentionally revokes the direct debit authorization agreement Section 10(b) requires, or closes the account to which the authorization agreement applies without first having established another royalty payment account and having signed and delivered to Company a new Authorization Agreement for Preauthorized Payments on a form acceptable to Company and its bank.

(5) Company decides not to exercise the additional option provided in Section 13(h)(4) with respect to the sale of the franchise by a deceased Franchisee's heirs.

(6) Franchisee and/or any Person Bound commits or allows to occur three or more Events of Default in any 12-month period, whether or not the Events of Default are related types of default and whether or not they are cured.

(7) Franchisee or any other Person Bound is convicted of, or pleads guilty or no contest to (even if a final court order has not issued), a felony or a crime involving moral turpitude, consumer fraud, or any other crime or offense, or commits any act (regardless of whether such act constitutes a crime) that in Company's sole opinion is reasonably likely to have an adverse effect on the System or the Marks, or the goodwill associated with the System or the Marks.

(8) Franchisee or any guarantor of Franchisee's monetary obligations to Company becomes insolvent, admits in writing the inability to pay the monetary obligations of Franchisee or the guarantor as they mature, is adjudicated a bankrupt, voluntarily files a petition for liquidation or reorganization under any provision of the United States Bankruptcy Code, makes an assignment for the benefit of creditors or takes any other action pursuant to any federal or state insolvency statute.

(9) A receiver or trustee is appointed for all or a substantial part of Franchisee's assets, or a judgment for an amount in excess of \$5,000 is entered against Franchisee that Franchisee does not pay or cannot stay within 30 days after the judgment is entered.

17. Termination; Other Remedies.

(a) If Franchisee commits or allows an Event of Default to occur and does not cure it before the related remedial period, if any, expires, Company may at its sole discretion, but subject to compliance with applicable statutory notice and/or hearing requirements, either terminate the franchise and Franchisee's rights under this Agreement or compel Franchisee to sell the Store in accordance with Section 17(d). Upon termination or expiration of the franchise, Franchisee's right and privilege to use the Marks, the Copyrighted Materials, the Trade Secrets and all components of the Operations Manual shall absolutely and unconditionally cease. Franchisee shall immediately:

(1) discontinue use of the Marks, the Copyrighted Materials, the System and the Trade Secrets;

(2) return to Company, at Franchisee's expense, the entire Operations Manual (if in printed format) and any other electronic, web-based, printed, graphic or audio/visual item or item provided in any other media designated by Company as containing Trade Secrets or items that are proprietary to Company;

(3) remove from the Store's premises all interior and exterior Kolache Factory signs and other uses of the Marks; and

(4) alter the Store's interior to remove all Trade Dress items and otherwise eliminate the distinctive features of the Store concept.

(b) Upon the franchise's termination or expiration, Company may immediately file with Franchisee's local telephone company all Assignments of Telephone Numbers that Franchisee provided Company in accordance with Section 7(d)(4), and may instruct the telephone company to transfer use and control of the Store's telephone numbers to Company or its designee. Franchisee irrevocably constitutes and appoints Company and its designees as Franchisee's agent and attorney-in-fact to effect the transfer of the Store's telephone numbers, including authority to execute and deliver on Franchisee's behalf any Transfer of Service Agreement the telephone company requires, and to revoke any call-forwarding or similar instructions Franchisee has given the telephone company. Company shall have no liability to Franchisee on account of or arising from any action it authorizes or takes to effect the transfer of the Store's telephone numbers in accordance with this Section 17(b). In addition, Company shall be entitled to injunctive or similar relief, without bond, against Franchisee and any other Person Bound to enforce compliance with these requirements.

(c) If Franchisee does not comply with the requirements of Section 17(a) within seven days after the franchise's termination or expiration, Company may, at Franchisee's expense, enter the Store's premises and effect Franchisee's compliance with all of that Section's requirements, including removal and storage of Franchisee's signs, and alteration or removal and storage of Trade Dress items. Franchisee irrevocably constitutes and appoints Company and its designees as Franchisee's agent and attorney-in-fact to effect compliance with Section 17(a)'s requirements, and Company shall have no liability to Franchisee, in trespass or otherwise, on account of or arising from any action it authorizes or takes to effect Franchisee's compliance. In addition, Company shall be entitled to injunctive or similar relief, without bond, against Franchisee and any other Person Bound to enforce compliance with these requirements.

(d) In lieu of immediately terminating the franchise in accordance with Section 17(a), Company may order Franchisee to sell the Store and transfer Franchisee's rights under this Agreement to a purchaser designated by or acceptable to Company. After Company orders Franchisee to sell the franchised business, Franchisee shall have no further right or opportunity to remedy a default or to reinstate Franchisee's right to continue operating the Store. Except for Company's right to approve a proposed purchaser's financial and business qualifications and to ensure that all royalties, marketing fees and other amounts due Company are paid at the closing of the sale, Franchisee shall be entitled to establish and negotiate the terms of sale. If Franchisee does not negotiate definitive terms of sale with a qualified purchaser, either designated by Company or located by Franchisee and approved by Company, within 90 days after Franchisee receives Company's demand to sell, or does not consummate the sale within 45 days after negotiations are completed, Company may terminate the franchise under Section 17(a) without further notice.

(e) In addition to the preceding rights and remedies (and in lieu of immediately exercising its rights under Section 17(a)), Company may notify each distributor of Kolache Factory brand dough balls and other proprietary products and merchandise that Franchisee is no longer authorized to purchase these

items or any paper goods imprinted with any of the Marks, and that sales of such merchandise to Franchisee must therefore be discontinued until further notice from Company.

(f) In addition to the preceding rights and remedies, Company may recover all royalties, Ad Fund contributions, Internet/Intranet maintenance fees and trade obligations due Company, plus interest under Section 14, with or without terminating the franchise. If any such obligation is referred to an attorney for collection or is collected in whole or in part through a judicial proceeding, Franchisee agrees to pay Company's reasonable attorneys' fees and costs of collection, plus a reasonable charge for the staff and administrative time Company expends to enforce its claims.

(g) In addition to the preceding rights and remedies, Company may cancel Franchisee's account on the Kolache Factory Intranet network and deny Franchisee further access to communication via the Intranet, with or without terminating the franchise.

(h) In addition to the preceding rights and remedies, Company may obtain injunctive relief, without bond, against Franchisee and/or any other Person Bound restraining the unauthorized or violative use of any Mark, item of Copyrighted Materials or Trade Secret, with or without terminating the franchise.

(i) In addition to the preceding rights and remedies, Company may recover damages and costs of enforcement (including reasonable attorney's fees) from Franchisee and any other Person Bound for the unauthorized use of any Mark and/or Trade Secret or the unauthorized use, copying or distribution of any item of Copyrighted Materials, and for any loss of customer or future Franchisee goodwill in the Store's Trade Area.

(j) In addition to the preceding rights and remedies, Company shall have an option (but no obligation) to purchase all or any part of the Store's signs, equipment, fixtures and useable inventory from Franchisee for 60 days after the franchise expires or is terminated. The purchase price for signs and equipment will equal their net book value (cost, less depreciation) or fair market value, whichever is lower; the purchase price for useable inventory will equal its invoiced cost to Franchisee. The purchase price will be payable in cash (except that Company may assume any note or lease covering signs, equipment or fixtures). Franchisee agrees to provide Company the information necessary to establish the purchase price, to sign and deliver to Company a bill of sale or an assignment of lease, and otherwise to cooperate with Company in its taking title to and delivery of the items Company purchases. If Franchisee fails or refuses to comply with its obligations under this Section during the option period, Company's option will be extended until 15 days after Franchisee complies.

NOTE: Termination of the franchise shall ordinarily become effective upon Company's delivery of written notice of termination to Franchisee. However, if (1) an Event of Default occurs, and (2) before Company delivers notice of default and/or notice of termination, a voluntary or involuntary petition is filed under any chapter of the United States Bankruptcy Code by, on behalf of, or against Franchisee, and (3) the Event of Default remains unremedied at the time the bankruptcy or reorganization petition is filed, no notice of default or termination shall be required. Instead, if Franchisee files a voluntary petition for liquidation or reorganization under the United States Bankruptcy Code, termination shall automatically become effective the instant a petition is signed by or on behalf of Franchisee. If an involuntary petition is filed, termination shall automatically become effective the instant the petition is submitted to the clerk of the Bankruptcy Court for filing.

18. Damages and Liquidated Damages.

(a) If after (1) the expiration of the franchise in accordance with Section 11, or (2) the termination of the franchise by Company in accordance with Section 17, Franchisee continues to use any of the Marks or element of the System in connection with the continued operation of the Store or

otherwise, then, in addition to any other remedies available to Company at law or in equity, Company shall be entitled to collect from Franchisee, and Franchisee agrees to pay a weekly royalty for such use of the Marks and/or the System equal to 150% of the royalties that Franchisee would otherwise have been obligated to pay under Section 10.

(b) If Franchisee unilaterally repudiates and surrenders the franchise before the expiration of its term and, within 24 months after the date of termination, directly or indirectly commences operation of a bakery that produces kolaches as a principal product or of a quick service food business that serves kolaches as a primary menu item, then, in addition to any other remedies available to Company at law or in equity, Company shall be entitled to receive throughout the entire remaining term of the franchise, and Franchisee agrees to pay, a weekly fee equal to 10% of the competing operation's revenues, measured in accordance with the definition of Gross Sales in the Glossary attached to this Agreement.

(c) If Franchisee directly or indirectly opens or participates in the ownership or operation of a business in violation of the covenant not to compete expressed in Section 19, then, in addition to any other remedies available to Company at law or in equity, Company shall be entitled to receive throughout the term of the covenant, and Franchisee agrees to pay, a weekly fee equal to 10% of the competing operation's revenues, measured in accordance with the definition of Gross Sales in the Glossary attached to this Agreement.

(d) If Franchisee disposes of the Store's operating assets or premises in violation of Section 7(d)(28) and the purchaser refuses to sign a Franchise Agreement for the continued operation of the Store as a Kolache Factory Store, then, in addition to any other remedies available to Company at law or in equity, Company shall be entitled to receive, and Franchisee agrees to pay, a sum equal to the royalties Company would otherwise have received during the remaining term of the franchise, discounted to present value. In calculating the royalties Company would otherwise have received, Franchisee will be deemed to have earned annual Gross Sales for the balance of the franchise term equal to one third of the Store's Gross Sales for the 36 months preceding the date on which the violative disposition occurs.

(e) Except with respect to Franchisee's and the obligation of each Person Bound to indemnify Company pursuant to Section 7(d)(27), claims for which Company is entitled to liquidated damages, and Company's rights to claim damages pursuant to Section 17(i) for misuse of the Marks, Trade Secrets or Copyrighted Material or other damage to the Company's goodwill, the parties waive to the fullest extent permitted by law any right to or claim for any punitive, exemplary, special and consequential damages against the other and agree that, in the event of an action or claim arising from a dispute between the parties, the parties bringing an action or claim shall be limited to equitable relief and to recovery of any direct or general damages it sustains; provided.

19. Covenant Against Competition.

(a) In consideration of Company's providing operations and management training to Franchisee and disclosing to Franchisee the System and other Trade Secrets, Franchisee covenants and agrees that, during the term of the franchise and for two years after its expiration or termination, Franchisee will not own or operate, directly or indirectly, or accept employment by or hold an interest in any bakery that produces kolaches as a principal product or in any quick service food business that serves kolaches as a primary menu item, except as a franchisee of Company.

(b) During the term of the franchise, Franchisee's covenant not to compete will apply universally; for the two-year period after the franchise expires or is terminated, Franchisee's covenant will apply in the DMA in which the Store is located and in each other DMA in which a Company-owned or franchised Store is then operating or under development. For purposes of calculating the duration of the two-year period, any time during which Franchisee is in violation or breach of the covenant shall be excluded.

(c) Franchisee acknowledges that Franchisee's covenant not to compete is reasonable and necessary to protect the business and goodwill of the Kolache Factory Network and to avoid misappropriation or other unauthorized use of the System and Company's other Trade Secrets.

(d) Franchisee acknowledges and confirms that Franchisee possesses the education, training and experience necessary to earn a reasonable livelihood apart from operating a business that serves kolaches as its principal product.

20. Partial Invalidity.

The provisions of this Agreement are severable, and if any provision is held illegal, invalid or unenforceable, the holding shall not affect the legality, validity or enforceability of any other provision. Any illegal, invalid or unenforceable provision shall be reformed to the minimum extent necessary to render it legal, valid and enforceable and, as so reformed, shall continue in full force and effect.

21. Notices.

All notices or demands required or permitted under this Agreement shall be in writing and shall be deemed delivered when deposited with the United States Postal Service, first class postage prepaid, certified or registered mail, return receipt requested, addressed, if to Company, to 23240 Westheimer Parkway, Suite A, Katy, Texas 77494, Attn. President; and if to Franchisee, initially to the address shown in the signature block of this Agreement and, after the Store opens, to the address of the Approved Location. Either party may at any time change the address to which notices are to be sent by giving the other at least 10 days' prior notice in accordance with this Section 21.

22. Status of Parties.

This Agreement is not intended to create, and shall not be interpreted or construed as creating, a partnership, joint venture, agency, employment, personal services, fiduciary or other "special" relationship between Company and Franchisee, and no representation to the contrary shall be binding upon Company.

23. Binding Effect.

This Agreement shall be binding upon and inure to the benefit of Company and Franchisee and their respective successors, assigns, executors, heirs and personal representatives. If Franchisee is, or subsequently transfers the franchise to, a Business Entity, each holder of 15% or more of Franchisee's capital stock or units of beneficial ownership, and each general partner of Franchisee (each a "Person Bound") shall also be personally and individually bound by the provisions of Sections 7(d)(10), 7(d)(24), 7(d)(27), 7(d)(28), 12, 13, 19 and 24 of this Agreement.

24. Law Governing; Dispute Resolution.

(a) Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§1051 *et. seq.*), this agreement will for all purposes be governed by and interpreted and enforced in accordance with the Internal laws of the State of Texas, except that its choice of law and conflict of law rules will not apply. Notwithstanding the above, Franchisee and each Persons Bound agrees that the Texas Business Opportunity Act and the Texas Deceptive Trade Practice Act (and any successor laws, rules or regulations thereto) do not apply to the transactions contemplated by this Agreement.

WAIVER OF CONSUMER RIGHTS

I waive my rights under the Deceptive Trade Practices-Consumer Protection Act, Section 17.41 et seq., Business & Commerce Code, a law that gives consumers special rights and protections. After consultation with an attorney of my own selection, I voluntarily consent to this waiver.

(b) The parties mutually agree that the state and federal courts located in the county in which Company has its then current principal place of business (currently the U.S. District Court for the Southern District of Texas, or if such court lacks jurisdiction, the state courts located in Harris County, Texas), will be the exclusive venue and exclusive forum in which to adjudicate any Action arising from or relating to this Agreement and any guarantees hereof, undertakings hereunder provided and relationship established thereby, however, with respect to any Action which seeks monies owed, injunctive relief or other extraordinary relief, Company may bring such action in any court of competent jurisdiction. The parties irrevocably submit to the jurisdiction of such courts and waive any objections to either the jurisdiction of or venue in such courts. The parties mutually agree that personal jurisdiction may be effected by service of process and that when so made will be as if served personally. This Agreement was executed and accepted at Company's current place of business in Harris County, Texas. The parties anticipate that the performance of certain of Franchisee's obligations arising under this Agreement, including the payment of certain monies due Company, will initially occur in Harris County, Texas.

(c) Except with respect to Franchisee's and each Person Bound's obligation to indemnify Company and claims Company brings for Franchisee's unauthorized use of the Marks or unauthorized use or disclosure of any Trade Secrets, the parties waive to the fullest extent permitted by law any right to or claim for any punitive, exemplary, special and consequential damages against the other and agree that, in the event of any Action between the parties, the parties bringing the Action will be limited to equitable relief and to recovery of any direct or general damages it sustains; provided, however that Company will have the right to recover lost profits and all applicable liquidated damages afforded under this Agreement in the event of termination of this Agreement.

(d) Except for an Action arising from Franchisee's nonpayment or underpayment of amounts Franchisee owes Company pursuant to this Agreement, or an Action related to Franchisee's unauthorized use of the Marks, any and all Actions arising out of or relating to this Agreement or the relationship created hereby will be barred unless an Action is commenced within two years from the date on which the party asserting such Action knew or should have known of the facts giving rise to such Action.

(e) **JURY TRIAL WAIVER.** THE PARTIES IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER PARTY RELATING TO THE RELATIONSHIP BETWEEN THE PARTIES OR ARISING UNDER OR IN ANY WAY CONNECTED WITH THIS AGREEMENT OR ANY RIGHT OR CURE HEREUNDER.

25. Condition Precedent.

If Franchisee is a Business Entity, this Agreement will not be binding on Company and no franchise will be granted unless and until each holder of 15% or more of Franchisee's capital stock or units of beneficial ownership, or each general partner of Franchisee executes and delivers a Guaranty and Acknowledgment in the form appended to this Agreement.

26. Miscellaneous.

(a) The term "Franchisee" includes the plural as well as the singular, the masculine and feminine genders and Business Entities, as well as individuals.

(b) Except as provided in Section 8(a)(5), this Agreement may not be amended, modified or rescinded, or any performance requirement waived, except by a written document signed by Company and Franchisee. The parties expressly agree that this Agreement may not be amended or modified, or any performance standard changed, by course of dealing or inference from a party's conduct. This provision does not apply to changes in the Operations Manual, which Company may modify unilaterally.

27. Franchisee's Acknowledgments.

(a) Franchisee acknowledges and agrees that this Agreement, together with any duly executed amendment or addendum attached to this Agreement, contains the entire agreement between the parties with respect to Franchisee's franchise for the Store, and that it supersedes any prior or contemporaneous agreements between the parties, written or oral, with respect to the franchise for the Store; provided that nothing in this Agreement or in any related agreement, however, is intended to disclaim the representations Company made in the franchise disclosure document that Company furnished to Franchisee. _____ [FRANCHISEE'S INITIALS]

(b) Franchisee confirms and acknowledges that no written or oral agreements, promises, commitments, undertakings or understandings were made to or with Franchisee that are not expressly set forth in this Agreement and any duly executed amendment or addendum attached to this Agreement or in the Franchise Disclosure Document Franchisee required by the Trade Regulation Rule of the Federal Trade Commission entitled Disclosure Requirements and Prohibitions Concerning Franchising received in connection with this franchise.
_____ [FRANCHISEE'S INITIALS]

(c) Franchisee confirms and acknowledges that, except for the Item 19 Financial Performance Representation included in the Franchise Disclosure Document that Company delivered to Franchisee, no person representing Company made any oral, written or visual claim, presentation or representation to Franchisee that stated or suggested that Franchisee's Store might attain any actual, projected or forecasted level of sales, income or profits. _____ [FRANCHISEE'S INITIALS]

(d) Franchisee confirms and acknowledges that no representation, warranty, guaranty or promise other than those expressly set forth in this Agreement and in the Franchise Disclosure Document that Company delivered to Franchisee was made by Company or any other person to induce Franchisee to sign this Agreement. Franchisee recognizes that neither Company nor any other party can guarantee Franchisee's business success or state the exact costs of opening and operating a Store, and that such success and costs will depend primarily upon Franchisee's own efforts and business ability. Franchisee also recognizes that any new business venture is speculative. _____ [FRANCHISEE'S INITIALS]

(e) Franchisee acknowledges that no document that Section 26(b) requires will be binding on Company unless it is signed on Company's behalf by its President. _____ [FRANCHISEE'S INITIALS]

(f) Franchisee acknowledges that this Agreement creates an arm's length commercial relationship that cannot and will not be transformed into a fiduciary or other "special" relationship by course of dealing, by any special indulgences or benefits that Company bestows on Franchisee, or by inference from a party's conduct. _____[FRANCHISEE'S INITIALS]

(f) Franchisee acknowledges that it and the owners of any equity interest in Franchisee are knowingly and voluntarily executing, and agreeing to be bound by the terms of, this Agreement and Company has advised Franchisee and the owners of any equity interest in Franchisee to seek legal counsel and a financial advisor to review and evaluate this Agreement. ____[FRANCHISEE'S INITIALS]

(g) Franchisee represents and warrants to Company that neither Franchisee, nor any owner of an equity interest in Franchisee, nor any executive officer of Franchisee, nor any of their respective affiliates is identified, either by name or an alias, pseudonym or nickname, on the lists of "Specially Designated Nationals" or "Blocked Persons" maintained by the U.S. Treasury Department's Office of Foreign Assets Control (texts available at www.treas.gov/offices/enforcement/ofac/). Further, Franchisee represents and warrants that neither it nor any equity owner, executive officer or affiliate referred to above has violated and agrees not to violate any law prohibiting corrupt business practices, money laundering or the aid or support of Persons who conspire to commit acts of terror against any Person or government, including acts prohibited by the USA Patriot Act (text available at <http://www.epic.org/privacy/terrorism/hr3162.html>), U.S. Executive Order 13244 (text available at <http://www.treas.gov/offices/enforcement/ofac/sanctions/terrorism.html>), or any similar law. The foregoing constitute continuing representations and warranties, and Franchisee shall immediately notify Company in writing of the occurrence of any event or the development of any circumstance that might render any of the foregoing representations and warranties false, inaccurate or misleading. _____[FRANCHISEE'S INITIALS]

KF FRANCHISING, LTD.

FRANCHISEE

By: Kolache Factory Management, L.L.C.
General Partner

Signature, if an individual

By: _____

Franchisee's name, printed

Title: _____

Date: _____

Date: _____φ

(Corporate, partnership and limited liability company franchisees must complete the following)

By: _____

Title: _____

φ Considered the Effective Date of this Agreement.

STATE SPECIFIC ADDENDA

KF FRANCHISING, LTD.
CALIFORNIA AMENDMENT TO FRANCHISE AGREEMENT

For purposes of complying with the requirements of California law, including the California Franchise Investment Law, CAL. CORP. CODE Section 31000 *et seq.* ("CFIL"), and the California Franchise Relations Act, CAL. BUS. & PROF. CODE Section 20000 *et seq.* (the "CRA"), KF Franchising, Ltd. and _____ ("You"), hereby amend the Franchise Agreement between them dated _____ (the "Agreement") as follows:

1. Sections 20000 through 20043 of the CRA provide rights to you termination, transfer or non-renewal of the Agreement. The Federal Bankruptcy Code also provides rights to you concerning termination of the Agreement upon certain bankruptcy-related events. To the extent the Agreement contains a provision that is inconsistent with these laws, these laws will control.

2. The franchise agreement requires you to execute a general release of claims upon renewal or transfer of the franchise agreement. California Corporations Code Section 31512 provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that law or any rule or order is void. Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 2000 through 20043).

3. If the Agreement requires payment of liquidated damages that is inconsistent with California Civil Code Section 1671, the liquidated damage clause may be unenforceable.

4. If the Agreement contains a covenant not to compete which extends beyond the expiration or termination of the Agreement, the covenant may be unenforceable under California law.

5. If the Agreement requires litigation, arbitration or mediation to be conducted in a forum other than the State of California, the requirement may unenforceable under California law.

6. If the Agreement requires that it be governed by a state's law other than the State of California, such requirement may be unenforceable.

7. No disclaimer, questionnaire, clause, or statement signed by a franchisee in connection with the commencement of the franchise relationship shall be construed or interpreted as waiving any claim of fraud in the inducement, whether common law or statutory, or as disclaiming reliance on or the right to rely upon any statement made or information provided by any franchisor, broker or other person acting on behalf of the franchisor that was a material inducement to a franchisee's investment. This provision supersedes any other or inconsistent term of any document executed in connection with the franchise.

8. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 20__.

KF FRANCHISING, LTD.

Witness

By: _____
Name: _____
Title: _____

Witness

FRANCHISEE:

By: _____
Name: _____
Title: _____

KF FRANCHISING, LTD.
ILLINOIS AMENDMENT TO FRANCHISE AGREEMENT

For purposes of complying with the requirements of Illinois law, including the Illinois Franchise Disclosure Act of 1987, Ill. Rev. Stat. ch. 815 para. 705/1 – 705/44 (1994) (the “Illinois Franchise Act”), KF Franchising, Ltd. and _____ (“_____”), hereby amend the Franchise Agreement between them dated _____ (the “Agreement”) as follows:

1. Section 705/19 and 705/20 of the Illinois Franchise Act provide rights to franchisees concerning nonrenewal and termination of a franchise. If the Agreement contains a provision that is inconsistent with the Illinois Franchise Act, the Illinois Franchise Act will control.

2. Section 41 of the Illinois Franchise Act states that “any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.”

3. Any provision that designates jurisdiction or venue or required Franchisee to agree to jurisdiction or venue in a forum outside of Illinois is void with respect to any cause of action which is otherwise enforceable in Illinois, except arbitration may take place outside the state of Illinois.

4. Illinois law shall govern the Agreement.

5. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of Illinois law applicable to the provisions are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

6. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 20____.

KF FRANCHISING, LTD.

By: _____
Name: _____
Title: _____

FRANCHISEE:

By: _____
Name: _____
Title: _____

Witness

Witness

KF FRANCHISING, LTD.
MARYLAND AMENDMENT TO FRANCHISE AGREEMENT

For purposes of complying with the requirements of Maryland law, including the Maryland Franchise Registration and Disclosure Law, MD. BUS. REG. CODE ANN. § 14-201 et. seq. (2015 Repl. Vol.) (the “Maryland Franchise Law”), KF Franchising, Ltd. (“Company”) and _____ (“_____”), hereby amend the Franchise Agreement between them dated _____ (the “Agreement”) as follows:

1. Pursuant to COMAR 02.02.08.16L, the Agreement is amended to reflect that:
 - (a) Any release required as part of the Agreement or as a condition of the sale, renewal and/or assignment/transfer of the franchise shall not apply to any liability under the Maryland Franchise Law.
 - (b) Any claims arising under the Maryland Franchise Law must be brought within three (3) years after the grant of the franchise.
 - (c) Any provision in the Agreement which requires litigation to be conducted in a forum other than the State of Maryland will not limit any rights you may have under the § 14-216(c)(25) of the Maryland Franchise Law to bring suit for claims arising under the Maryland Franchise Law in the State of Maryland.
2. All representations in the Agreement requiring you to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Law.
3. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 20__.

KF FRANCHISING, LTD.

Witness

By: _____
Name: _____
Title: _____

FRANCHISEE:

Witness

By: _____
Name: _____
Title: _____

KF FRANCHISING, LTD.
MINNESOTA AMENDMENT TO FRANCHISE AGREEMENT

For purposes of complying with the requirements of Minnesota law, including the Minnesota Franchise Act, Minn. Stat. Section 80.01 *et seq.* and the rules and regulations promulgated thereunder, KF Franchising, Ltd. and _____ (“_____”), hereby amend the Franchise Agreement between them dated _____ (the “Agreement”) as follows:

1. The Minnesota Department of Commerce requires that KF Franchising, Ltd. indemnify you against liability to third parties for infringement resulting from your use of the trademarks licensed under the Agreement. Section 12 of the Agreement describes the circumstances under which KF Franchising, Ltd. will indemnify you against third party liability for trademark infringement. Requirements imposed under the Minnesota Franchises Act will supersede inconsistent provisions contained in Section 12 of the Agreement.

2. Sec. 80C.14, Subd. 4 of the Minnesota Franchises Act requires, except in certain specified instances, that KF Franchising, Ltd. give you written notice of its intention not to renew the franchise 180 days before the franchise expires, and to give you sufficient opportunity to operate the franchise in order to enable you to recover the fair market value of the franchise as a going concern. Requirements imposed under the Minnesota Franchise Act will supersede inconsistent provisions contained in the Agreement.

3. Sec. 80C.14, Subd. 3 of the Minnesota Franchises Act requires, except in certain specified instances, that KF Franchising, Ltd. give you ninety (90) notice of termination (with sixty (60) days to cure). Requirements imposed under the Minnesota Franchises Act will supersede inconsistent provisions contained in the Agreement.

4. Sec. 80C.14, Subd.5 of the Minnesota Franchises Act prohibits a person to unreasonably withhold consent to an assignment, transfer, or sale of the franchise whenever the franchisee to be substituted meets the present qualifications and standards required of the franchisees of KF Franchising, Ltd.

5. Any release of claims or acknowledgment of fact contained in the Agreement that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Minnesota Franchises Act or a rule or order promulgated thereunder shall be void with respect to claims arising under the Minnesota Franchises Act.

6. Secs. 80C.21 of the Minnesota Franchises Act and Minn. Rule 2860.4400J prohibit KF Franchising, Ltd. from requiring litigation to be conducted outside Minnesota. Nothing in the Agreement will, or is intended to, abrogate or reduce any of your rights as provided for in the Minnesota Franchises Act or your rights to any procedure, forum or remedies provided for by the laws of the Minnesota.

7. Sec. 18 of the Agreement (pertaining to liquidated damages) is hereby deleted; provided that such deletion shall not excuse you from liability for actual or other damages and the formula for assessing liquidated damages shall be admissible in any litigation or proceeding as evidence of actual damages.

8. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of Minnesota law applicable to the provisions are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

9. As to any state law described in this Amendment that declares void or unenforceable any provision contained in the Agreement, KF Franchising, Ltd. reserves the right to challenge the enforceability of the state law.

10. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 20__.

KF FRANCHISING, LTD.

Witness

By: _____
Name: _____
Title: _____

FRANCHISEE:

Witness

By: _____
Name: _____
Title: _____

KF FRANCHISING, LTD.
NEW YORK AMENDMENT TO FRANCHISE AGREEMENT

For purposes of complying with the requirements of New York law, including the General Business Law, Article 33, Sections 680 through 695 (1989) and the rules and regulations promulgated thereunder, KF Franchising, Ltd. and _____ (“_____”), hereby amend the Franchise Agreement between them dated _____ (the “Agreement”) as follows:

1. If you are required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the General Business Law, regulation, rule or order under the Law, such release shall exclude claims arising under the New York General Business Law, Article 33, Section 680 through 695 and the regulations promulgated thereunder, and such acknowledgments shall be void. It is the intent of this provision that non-waiver provisions of Sections 687.4 and 687.5 of the General Business Law be satisfied.

2. If the Agreement requires that it be governed by a state’s law, other than the State of New York, the choice of law provision shall not be considered to waive any rights conferred upon you under the New York General Business Law, Article 33, Sections 680 through 695.

3. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of New York law applicable to the provisions are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

4. As to any state law described in this Amendment that declares void or unenforceable any provision contained in the Agreement, KF Franchising, Ltd. reserves the right to challenge the enforceability of the state law.

5. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 20__.

KF FRANCHISING, LTD.

Witness

By: _____
Name: _____
Title: _____

FRANCHISEE:

Witness

By: _____
Name: _____
Title: _____

KF FRANCHISING, LTD.
WASHINGTON AMENDMENT TO FRANCHISE AGREEMENT

For purposes of complying with the requirements of Washington law, including the Washington Franchise Investment Protection Act, and the rules and regulations promulgated thereunder, KF Franchising, Ltd. and _____ (“_____”), hereby amend the Franchise Agreement between them dated _____ (the “Agreement”) as follows:

1. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.

2. RCW 19.100.180 may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

3. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

4. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

5. Transfer fees are collectable to the extent that they reflect the franchisor’s reasonable estimated or actual costs in effecting a transfer.

6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee’s earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor’s earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

8. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 20__.

KF FRANCHISING, LTD.

Witness

By: _____
Name: _____
Title: _____

FRANCHISEE:

Witness

By: _____
Name: _____
Title: _____

EXHIBIT A

DESCRIPTION OF PRINCIPAL MARKS

Mark	Registration Date	Class	Registration No.
KOLACHE FACTORY & Design	August 26, 1997	30	2,091,991
KOLACHE FACTORY & Design	May 22, 2001	42	2,453,670
KOLACHE FACTORY	May 29, 2001	42	2,455,909
KOLACHE FACTORY	May 29, 2001	30	2,455,908

EXHIBIT B

DESCRIPTION OF TRADE AREA

The Store's Trade Area is:

The street address of the Approved Location is:

EXHIBIT C

LEASE RIDER

This Lease Rider is entered into this _____ day of _____, 20____ by and among KF Franchising, Ltd., a Texas limited partnership ("Company"), _____ ("Franchisee") and _____ ("Landlord").

WHEREAS, Company and Franchisee are parties to a Franchise Agreement, which is dated _____, 20____ (the "Franchise Agreement"); and

WHEREAS, the Franchise Agreement provides that Franchisee will operate a Kolache Factory restaurant ("Restaurant") at a location that Franchisee selects and Company approves; and

WHEREAS, Franchisee and Landlord propose to enter into the lease to which this Rider is attached (the "Lease"), pursuant to which Franchisee will occupy premises located at _____

_____ (the "Premises") for the purpose of constructing and operating the Restaurant in accordance with the Franchise Agreement; and

WHEREAS, the Franchise Agreement provides that, as a condition to Company's authorizing Franchisee to enter into the Lease, the parties must execute this Lease Rider;

NOW, THEREFORE, in consideration of the mutual undertakings and commitments set forth in this Rider and in the Franchise Agreement, the receipt and sufficiency of which the parties acknowledge, the parties agree as follows:

1. During the term of the Franchise Agreement, Franchisee shall be permitted to use the Premises for the operation of the Restaurant and for no other purpose.
2. Subject to applicable zoning laws and deed restrictions and to prevailing community standards of decency, Landlord consents to Franchisee's installation and use of such trademarks, service marks, signs, decor items, color schemes and related components of the Kolache Factory system as Company may from time to time prescribe for the Restaurant.
3. Landlord agrees to furnish Company with copies of all letters and notices it sends to Franchisee pertaining to the Lease and the Premises, at the same time it sends such letters and notices to Franchisee.
4. Company shall have the right, without being guilty of trespass or any other crime or tort, to enter the Premises at any time or from time to time (i) to make any modification or alteration it considers necessary to protect the Kolache Factory system and marks, (ii) to cure any default under the Franchise Agreement or under the Lease, or (iii) to remove the distinctive elements of the Kolache Factory trade dress upon the Franchise Agreement's expiration or termination. Neither Company nor Landlord shall be responsible to Franchisee for any damages Franchisee might sustain as a result of action Company takes in accordance with this provision. Company shall repair or reimburse Landlord for the cost of any damage to the Premises' walls, floor or ceiling that result from Company's removal of trade dress items and other property from the Premises.
5. Franchisee shall be permitted to assign the Lease to Company or its designee upon the expiration or termination of the Franchise Agreement. Landlord consents to such an assignment and agrees

not to impose any assignment fee or similar change, or to increase or accelerate rent under the Lease, in connection with such an assignment.

6. If Franchisee assigns the Lease to Company or its designee in accordance with the preceding paragraph, the assignee must assume all obligations of Franchisee under the Lease from and after the date of assignment, but shall have no obligation to pay any delinquent rent or to cure any other default under the Lease that occurred or existed prior to the date of the assignment.
7. Franchisee may not assign the Lease or sublet the Premises without Company's prior written consent, and Landlord will not consent to an assignment or subletting by Franchisee without first verifying that Company has given its written consent to Franchisee's proposed assignment or subletting.
8. Landlord and Franchisee will not amend or modify the Lease in any manner that could materially affect any of the provisions or requirements of this Lease Rider without Company's prior written consent.
9. The provisions of this Lease Rider will supersede and control any conflicting provisions of the Lease.
10. Landlord acknowledges that Company is not a party to the Lease and shall have no liability or responsibility under the Lease unless and until the Lease is assigned to, and assumed by, Company.

IN WITNESS WHEREOF, the parties have executed this Lease Rider of the date first above written

COMPANY:

KF FRANCHISING, LTD., a Texas limited partnership

By: _____

Name: _____

Title: _____

LANDLORD:

By: _____

Name: _____

Title: _____

FRANCHISEE:

By: _____

Name: _____

Title: _____

EXHIBIT D

ELECTRONIC DEBT AUTHORIZATION Authorization Agreement for Direct Payments (ACH Debits)

Company Name: KF Franchising, Ltd.

Company ID Number: 76-0669071

I (we) hereby authorize KF Franchising, Ltd/, hereinafter called COMPANY, to initiate debit entries to my (our) ☐ Checking Account/ ☐ Savings Account (select one) indicated below at the depository financial institution named below, hereafter called DEPOSITORY, and to debit the same to such account. I (we) acknowledge that the origination of ACH transactions to my (our) account must comply with the provisions of U.S. law.

Depository Name: _____ Branch: _____

City: _____ State: _____ Zip: _____

Routing Number: _____ Account Number: _____

This authorization is remain in full force and effect until COMPANY has received written notification from me (or either of us) or its termination in such time and in such manner as to afford COMPANY and DEPOSITOR a reasonable opportunity to act on it.

Name(s): _____ ID Number: _____
(Please Print)

Date: _____ Signature: _____

NOTE: DEBIT AUTHORIZATIONS MUST PROVIDE THAT THE RECEIVER MAY REVOKE THE AUTHORIZATION ONLY BY NOTIFYING THE ORIGINATOR IN THE MANNER SPECIFIED IN THE AUTHORIZATION.

ATTACH VOIDED CHECK HERE

EXHIBIT E

ASSIGNMENT OF TELEPHONE NUMBERS

This Assignment relates to:

Name of Franchisee: _____

Address of Store: _____

Telephone Number(s): (____) _____; (____) _____; (____) _____

For valuable consideration, the Franchisee identified above ("Franchisee") assigns and transfers to KF Franchising, Ltd. ("Company") all of Franchisee's rights and interests in each and all of the telephone numbers listed above (the "Numbers").

Franchisee authorizes Company to file this Assignment with the telephone company that issued the Numbers for the purposes of establishing Company's claim to and right to designate the user of the Numbers.

Franchisee irrevocably constitutes and appoints Company as Franchisee's agent and attorney-in-fact for the purposes of (i) signing and delivering any Transfer of Service Agreement or comparable document the telephone company requires to transfer the rights in the Numbers from Franchisee to Company or its designee, and (ii) canceling and revoking any call-forwarding or similar instructions Franchisee has issued to the telephone company with respect to any of the Numbers, with full power to sign Franchisee's name and otherwise to act in Franchisee's name, place and stead.

Franchisee agrees to reimburse Company the full amount of any local service and long distance charges the telephone company requires that Company paid to obtain the Numbers, together with interest as provided in the Franchise Agreement for the Store.

Franchisee represents and warrants to Company that Franchisee obtained the Numbers in his or her own name, and that Franchisee is the person of record the telephone company will recognize as registered user or "owner" of the Numbers.

Franchisee's signature

Franchisee's name, printed

GLOSSARY OF TERMS

The following terms are used in the preceding Franchise Agreement ("Agreement") with the meanings assigned in this Glossary.

Action means suit, proceeding, claim, demand, investigation, or inquiry, formal or informal.

Ad Fund has the meaning assigned in Section 8(a)(1).

Approved Layout means the Store-specific layout that Company or its designated architect prepares and that must be used as the basis for preparing construction documents for the Store's build out.

Business Entity means a corporation, partnership, limited partnership, limited liability company, business trust or other entity through two or more investors may conduct business.

Catering means the delivery and service of kolaches, complementary menu items and non-alcoholic drinks at school events, charity functions, community festivals, business gatherings, private parties and similar events.

Charter Documents means a corporation's articles of incorporation, by-laws and shareholders agreement (if any); a partnership's partnership agreement and, in the case of a limited partnership, its articles of limited partnership; a limited liability company's articles of association and regulations or operating agreement; and comparable governing documents of any other type of Business Entity.

Copyrighted Materials refers to and includes all versions, variations and adaptations of the following materials in tangible form, either produced by Company, produced on its behalf as works for hire, or derived from works produced by or on behalf of Company: (i) all manuals used in a Store's development, operation and marketing activities, including but not limited to the Operations Manual, (ii) training materials (including printed, audio, video or electronic materials), (iii) Store plans and specifications that are works for hire, (iv) menu board designs and graphics, (v) product identification posters and photographs, (vi) advertising and marketing materials, (vii) labels, forms and reports provided by Company, (viii) any computer software developed by Company or as works for hire for use in the operation of Stores, and (ix) any other materials protected by copyright law or marked or identified by Company as protected by copyright.

Crisis Management Event means any event that occurs at or otherwise involves the Store premises, or that occurs generally at a local, regional, national or even global scale, which has or may cause harm or injury to customers or employees, such as contagious diseases, natural disasters, terrorist acts, shootings or other acts of violence, food borne illnesses or any other similar circumstance which may materially and adversely affect the System or the goodwill symbolized by the Marks.

Delivery Service means the delivery of food and beverages in prepackaged portions to residential customers. Delivery service does not include on-site set up, food service or clean up.

Development Agreement means the Area Development Agreement between Company and Franchisee under which Franchisee undertook the Store's development.

DMA means Designated Market Area, an advertising term that Neilson Rating Service uses to demarcate the primary coverage of broadcast and print media in given markets. The boundaries of a particular DMA will be determined by reference to television coverage.

Effective Date means the date Company signs the Agreement, as indicated in its signature block.

General Manager means an individual appointed by Franchisee to supervise and manage all aspects of the Store's day-to-day operations and with whom Company and its staff may deal exclusively for purposes of administering and coordinating the franchise relationship. Franchisee's first General Manager is identified beneath the signature block of the Agreement.

Gross Sales means the aggregate revenues the Store receives from the sale of, or the provision of services with respect to, food, beverages, other menu items and other merchandise, whether for cash or on credit, less applicable sales taxes Franchisee collects and remits, and valid coupon credits and employee discounts deducted from revenues initially recorded as Gross Sales, but without deduction of any other costs or expenses whatsoever.

Hospitality Center means a hotel, lodge, country club, social club, resort, casino, theater or similar facility that provides recreation, entertainment or lodging either to the general public or to private members.

Indemnified Matter has the meaning ascribed in Section 7(d)(27).

Indemnified Parties means Company and the officers, directors, shareholders, partners, members, employees, agents, successors and assigns of Company and of any legal entity that controls, is controlled by or is under common control with Company.

Information Systems means electronic systems an operator uses to collect, compute, store and report a Store's Gross Sales, other financial data and operating information, such as cash registers, computers, peripheral equipment and related software programs.

Institution means a hospital, airport, public or private school, university or college campus, airport terminal, convention center, exhibition hall, amusement park, fair ground, sports arena, military base, state or national park, or other facility in which Special Outlets are frequently located.

Kolache Factory Network means the chain of Kolache Factory Stores, including those owned by Company and by franchisees.

Marks refers to and includes (i) the Kolache Factory service mark and logo, (ii) the Kolache Factory trade name, (iii) the elements and components of a Store's Trade Dress, and (iv) any and all additional or different trade names, trademarks, service marks, logos and slogans that Company adopts to identify the Kolache Factory Network and the products and services Stores offer. The Kolache Factory registered trademarks are described in Exhibit A.

Mall means an assembly of retail establishments housed in a structure that encloses more than 250,000 square feet of floor space (including common areas) under a single roof.

MEP means mechanical, electrical and plumbing.

Operations Manual means and collectively includes all manuals, policy statements, directives, bulletins and memoranda that contain prescribed or recommended specifications, standards, procedures, policies and advice relating to a Store's operation and management and to marketing the products Stores serve. The Operations Manual discloses the principle elements of Company's proprietary System, and its contents are and shall remain Company's exclusive property. The Operations Manual may be provided electronically or in hardcopy as determined by Company from time to time.

Operations Specialist has the meaning assigned in Section 6(b)(1).

Person Bound is defined in Section 23.

QSC Inspections means physical, on-site inspections of a Store to determine the degree to which its operation satisfies Company's quality, service and cleanliness standards.

Special Outlet means a temporary or seasonal booth, a kiosk, a satellite unit, an express unit, a mini-store, or similar installation, no matter how denominated. The term also includes a mobile dispensing unit, such as a cart or customized RV, but does not include an automobile or van used predominately for Catering or Delivery Service.

Store means a retail establishment at a fixed (permanent) location outside an Institution or Hospitality Center that operates on a year-round basis under the Kolache Factory trade name and System. The term does not include any type of Special Outlet.

System means the compilation of operating procedures, marketing concepts, management techniques, and communications methods and procedures that Company has developed or adopted to govern the operation of Stores, the marketing of their products and services, and the methods of communication between and among Company and Store operators.

Trade Dress means decorative, non-functional components of a Store that provide the establishment a distinctive, memorable appearance.

Trade Secrets means the components of the System, the contents of the Operations Manual and of all employee training materials and computer programs developed by Company or in accordance with its specifications, and any other confidential information that Company imparts to Franchisee with respect to a Store's operation or management, whether through the Operations Manual or otherwise.

Training Facility means a Company-operated Store that Company has designated as the location at which it will provide training for Franchisee's managerial-level employees.

GUARANTY AND ACKNOWLEDGMENT

The undersigned (whether one or more, herein called "Guarantors"), general partners or holders of 15% or more of the outstanding equity interests in the Franchisee under the Franchise Agreement to which this Guaranty and Acknowledgment is annexed, jointly and severally, absolutely and unconditionally guarantee to KF Franchising, Ltd., its successors and assigns ("Company"):

(1) The faithful and punctual performance of each and every duty and obligation of the Franchisee under the Franchise Agreement;

(2) The payment in full when due of all royalties, Ad Fund contributions, Internet/Intranet maintenance fees, and trade accounts payable by the Franchisee to Company;

(3) The payment in full when due of all contributions payable by the Franchisee to any Area Cooperative that the Franchisee may join pursuant to Section 8 of the Franchise Agreement; and

(4) The payment in full when due of any and all amounts for which the Franchisee may become obligated pursuant to Sections 13, 14, 17, 18 and 24 of the Franchise Agreement.

The monetary obligations described in clauses (2) through (4) above are called "Debts".

This is a continuing Guaranty and applies to all Debts for or with respect to which the Franchisee may become obligated, whether during the initial term of the franchise, any renewals or extensions thereof, or, with respect to Debts described in clause (4) above, after the franchise's expiration, termination or cancellation. This Guaranty shall be binding upon each Guarantor's heirs, executors, administrators, guardians, successors and assigns, and under no circumstances will any Guarantor's obligations under this Guaranty be released or extinguished without Company's written consent and release or until all Debts have been paid in full, whether or not a Guarantor's interest in the Franchisee is transferred, sold or otherwise surrendered.

Guarantors expressly waive demand and diligence on the part of the Company in the collection of any of the Debts and agree to all extensions that may be granted to the Franchisee by Company. Company shall be under no obligation to notify Guarantors of any sales or extensions of credit to the Franchisee in reliance on this Guaranty, or of the failure of the Franchisee to pay any of the Debts when due, or to use diligence in preserving the liability of any person on the Debts or in bringing suit or in taking other action to enforce collection of the Debts.

If the Franchisee's status should change through merger, consolidation or otherwise, this Guaranty shall cover the Debts of the Franchisee under its new status, according to the terms of this Guaranty.

Company shall not be required to pursue or exhaust any remedies against the Franchisee, to foreclose its interest in any collateral now or hereafter held by Company as security for the payment of the Debts, to terminate the Franchise Agreement or to take any other action before requiring payment under this Guaranty. Without in any manner impairing or diminishing the obligations of Guarantors under this Guaranty, Company may elect to pursue any legal or equitable remedy available against the Franchisee or against any collateral held by Company, even though the exercise by Company of such remedy results in loss to Guarantors of any right of subrogation or right to proceed against the Franchisee for reimbursement.

If the Franchisee is not liable on any of the Debts because the act of their creation is ultra vires, or if the officers or persons incurring any of the Debts acted in excess of their authority, and therefore the

Debts cannot be enforced against the Franchisee, Guarantors shall nevertheless be liable under this Guaranty.

If any payment by the Franchisee to Company is held to be a preference under the United States Bankruptcy Code, or if for any other reason Company is required to refund such payment or pay the amount thereof to any other person, such payment by the Franchisee shall not constitute a discharge of Guarantors from any liability under this Guaranty, and Guarantors agree to pay such amount to Company upon demand.

Each Guarantor represents that he or she owns a substantial equity interest in the Franchisee and that he or she is receiving consideration from the Debts that is a material, direct benefit to such Guarantor.

Each Guarantor agrees that this Guaranty is to be performed by Guarantors in Houston, Harris County, Texas, that this Guaranty shall be deemed to be a contract made under the laws of Texas and that this Guaranty and the rights of the parties hereto shall be governed by, interpreted in accordance with, and enforced under Texas law. Guarantors agree to pay Company's reasonable attorney's fees if this Guaranty is placed in the hands of an attorney for collection, or if it is collected through a proceeding in any court.

The provisions of Sections 7(d)(10), 7(d)(24), 7(d)(27), 7(d)(28), 12, 13, 19 and 24 of the Franchise Agreement are incorporated into this Guaranty and Acknowledgment by this reference. Each Guarantor acknowledges the contents of and agrees to be personally bound by the restrictions, limitations and obligations set forth in each of those Sections to the same extent as though Guarantors were the Franchisee.

GUARANTORS' SIGNATURES

Signature: _____
Name Printed: _____
Street Address: _____
Telephone Number: _____

Signature: _____
Name Printed: _____
Street Address: _____
Telephone Number: _____

Signature: _____
Name Printed: _____
Street Address: _____
Telephone Number: _____

EXHIBIT C

DEVELOPMENT AGREEMENT

**DEVELOPMENT AGREEMENT
FOR
KOLACHE FACTORY STORES**

TABLE OF CONTENTS

SECTION	PAGE NO.
1. Recitals	1
2. Area Development Rights	1
3. First Store Development Procedure.....	1
4. Second and Additional Store Development Procedure	2
5. Store Development Extensions; Force Majeure	3
6. Fees.....	3
7. Competitive Protection; Territorial Scope of Development Rights	3
8. Renewal.....	4
9. If Developer is a Business Entity, the following requirements apply	5
10. Default and Termination.....	5
11. Transfer	6
12. Notices.....	6
13. Status of Parties	6
14. Law Governing; Dispute Resolution	7
15. Miscellaneous.....	7
16. Developer's Acknowledgments.....	8

EXHIBITS:

A: Lease Rider

STATE SPECIFIC ADDENDA (if any)

SUMMARY PAGE

These pages summarize certain provisions of the KF Franchising, Ltd. Development Agreement to which they are attached. The Development Agreement's provisions will control in the event of any conflict.

Effective Date: _____

Development Area: _____

Development Fee: _____ (calculated as \$20,000 multiplied by the number of Stores in the Development Schedule)

Initial Franchise Fee: \$44,900

Transfer Fee: _____

DEVELOPER (you): _____

Address for Notices: _____

Attention: _____
Phone: _____
FAX: _____
E-mail: _____

Owners of Developer:

Name	Address	% of Equity Ownership

Controlling Owner: _____

COMPANY: KF Franchising, Ltd.

Address for Notices: 23240 Westheimer Parkway, Suite A
Katy, Texas 77494
Attn: John Banks

Disclosure Law Compliance:

Delivery Date of Franchise Disclosure Document: _____, 20 ____.

Delivery Date of completed copy of this Agreement: _____, 20____.

Development Schedule:

Store #	Lease Execution Date	Scheduled Opening Date	Required # of Operating Stores

**KF FRANCHISING, LTD.
DEVELOPMENT AGREEMENT**

THIS DEVELOPMENT AGREEMENT (“Agreement”) is entered into between KF Franchising, Ltd. , a Texas limited partnership (“Company”), and the Developer set forth in the Summary Pages (Developer). Capitalized terms shall have the meaning defined in the Glossary, which is incorporated herein by reference.

1. Recitals. Company sells franchises to operate Kolache Factory stores (“Stores”). Developer is a prospective franchisee whose application to become a Kolache Factory franchisee has been approved by Company.

2. Area Development Rights.

(a) In consideration of the development fee Developer pays in accordance with Section 6(a), Company grants to Developer the right (and Developer undertakes the obligation) to develop the number of Stores indicated in the Development Schedule set forth in the Summary Pages in the Development Area described in the Summary Pages.

(b) In order to retain the right to develop Stores, Developer must:

(i) develop and open Stores in compliance with Section 3 and 4 of this Agreement and the development schedule indicated in the Lease Execution Date and Scheduled Opening Date columns of the Development Schedule; and

(ii) as of each Store's Scheduled Opening Date, be operating in the Development Area the cumulative total number of Stores indicated in the Required # of Operating Stores column of the Development Schedule.

(c) Subject to earlier termination in accordance with Section 10 and to renewal under Section 8, Developer's development rights will continue from the Effective Date of this Agreement until the earlier of (i) the Scheduled Opening Date for the last Store Developer is scheduled to open, as indicated in the Development Schedule, or (ii) the date Developer's last Store actually opens. After Developer's development rights terminate or expire, Company may grant franchises and development rights to other franchisee/developers, and Company and its affiliated companies may open Stores in the Development Area, whether or not Developer opens the full number of Stores indicated in The Development Schedule. However, neither Company nor its affiliate companies may infringe the protected Trade Area of any Store that Developer operates.

3. First Store Development Procedure.

(a) Promptly after the Effective Date, Company will furnish Developer:

(i) A list of points that Developer should look for and consider in identifying potential sites for the first Store; and

(ii) Information about the interior lay-out, utility requirements and signs for a typical Store.

(b) Not later than the Lease Execution Date and Scheduled Opening Date for the first Store set forth in the Development Schedule (as applicable), Developer must complete the following steps in the sequence shown:

(i) Developer must locate at least 3 available sites that appear suitable for a Store and submit for Company's evaluation a landlord's summary of the lease terms available for each site. Developer must also give each landlord a copy of the Lease Rider attached to this Agreement as Exhibit A and obtain written verification that each landlord is willing to include the Rider's provisions in its lease. Developer must copy Company on all letters of intent and lease negotiation communications Developer has with its potential landlord. After Developer provides the required documentation, Company will

review the information on each site and review the lease summary in consultation with Developer. Company may, but will not be required, to visit and inspect the sites that Developer proposes.

(ii) If and when Company is satisfied that one or more of the sites and lease summaries are reasonably acceptable, Company will give Developer verbal authorization to proceed with preliminary lease negotiations. After we agree on a ranking with you, we will help you find a real estate broker who can assist you with any lease negotiations. Company's authorization to negotiate a lease will not be unreasonably withheld. However, Company reserves the right to reject any site or lease proposal Developer submits and to require that Developer obtain information on additional sites. Under no circumstances will Company authorize Developer to pursue a site located inside the protected Trade Area of another Store that is either operating or under development.

(iii) After receiving Company's authorization to negotiate, Developer must copy Company on all letters of intent and lease negotiation communications with a prospective landlord, negotiate a Store lease to Developer's satisfaction and submit a final, unsigned copy of the lease to Company for its verification that the Lease Rider and the Store's street address are included. Developer acknowledges that Company will have no responsibility for evaluating or advising Developer with respect to any business or legal aspects of the lease, but that Company may withhold authorization for Developer to sign a lease that omits a Lease Rider in substantially the form attached as Exhibit A to this Agreement, or contains provisions Company considers excessively onerous or restrictive.

(iv) When Company is satisfied with the Store lease, Company will give Developer written authorization to sign it. At the same time, Company will furnish Developer a ready-for-signature copy of the Franchise Agreement for the Store. The Franchise Agreement will be substantially the same as the Franchise Agreement attached to the Franchise Disclosure Document that Developer received prior to the execution of this Agreement, with all blanks filled in and the boundaries of the Store's protected Trade Area identified.

(v) After receiving Company's authorization to sign the Store lease, Developer must sign and furnish Company a photocopy of the executed lease, including all exhibits, attachments and addenda. When Company verifies that the executed lease contains no variances from the form Company approved, it will notify Developer that it is prepared to sign the Franchise Agreement.

(vi) Developer must sign the first Franchise Agreement, pay the balance of any initial fees due within ten days after Developer signs the Lease, and timely open the first Store for business with customers.

4. Second and Additional Store Development Procedure. Not later than the Scheduled Opening Date for the second and each additional Store, Developer must complete the following steps, in the sequence shown, for a Store's development:

(a) Not later than 30 days before a particular Store's lease Execution Date, Developer must notify Company that Developer is prepared to commence the Store's development. If Company's then-current form of Franchise Disclosure Document bears a more recent date than the most recent franchise disclosure document that Developer received, Company will furnish the current Franchise Disclosure Document to Developer. Developer will execute the then-current form of Franchise Agreement, which Developer agrees and acknowledges may differ materially from Company's now-current form of Franchise Agreement, including, without limitation, additional and increased fees.

(b) Developer must comply, in order, with the requirements of Sections 3(b)(i) through 3(b)(iii), except that Developer will not be required to submit a site evaluation form or lease summary for more than one site under Section 3(b)(i).

(c) After receiving Company's written authorization to sign the Store lease in accordance with Section 3(b)(iv), Developer must comply with the requirements of Section 3(b)(v) with respect to the Store's lease not later than the date shown in the Lease Execution Date column of The Development Schedule.

(d) Developer must sign Company's then-current form of Franchise Agreement for the Store, pay Company the balance of the applicable initial franchise fee.

(e) Developer must complete the Store build-out procedures set out in the Franchise Agreement and timely open the Store for business with public consumers.

5. Store Development Extensions; Force Majeure.

(a) If Developer is unable to secure a lease for the any Store by its scheduled Lease Execution Date, Developer may apply for one (but only one) 45-day extension of the Lease Execution Date and of the corresponding Scheduled Opening Date. To obtain an extension, Developer must request it in writing not later than 15 days before the relevant Lease Execution Date. Company will grant the extension if, in its reasonable judgment, Developer has made a good faith effort to comply with the requirements of Section 3(b), but has experienced delays beyond Developer's reasonable control.

(b) An extension obtained under Section 5(a) will apply only to the Store for which Developer obtained it; an extension will not delay the Lease Execution Date or the Scheduled Opening Date of any subsequent Store.

(c) If any Store's opening (but not the execution of its lease) is delayed beyond its Scheduled Opening Date on account of a natural disaster, an act of terrorism, fire or other casualty, labor dispute, materials shortage or similar event over which Developer lacks control, that Store's Scheduled Opening Date will be extended for the time reasonably necessary to remedy the event's effects. The extension provided in this Section 5(c) will be available only if Developer gives Company prompt notice of the event's occurrence and an estimate of the time required to remedy its effects.

(d) An extension under Section 5(c) will apply only to the Scheduled Opening Date of the Store whose development is interrupted; an extension will not delay the Lease Execution Date or the Scheduled Opening Date of any subsequent Store.

6. Fees.

(a) Development Fee. When Developer signs this Agreement, Developer must pay Company a development fee (Development Fee) equal to \$20,000 multiplied by the number of Stores Developer commits to develop under this Agreement. The Development Fee is set forth in the Summary Pages, is fully earned by Company in consideration of the development rights granted in this Agreement and is not refundable.

(b) Franchise Fees. The initial franchise fee for each Franchise Agreement and Store is \$44,900, payable when Developer or its Affiliate signs the Franchise Agreement for each Store; provided that Developer will receive a credit of \$20,000 on the initial franchise fee based on its prior payment of the Development Fee.

7. Competitive Protection; Territorial Scope of Development Rights.

(a) Except to the extent indicated in Section 7(a), Developer's right to develop Stores in the Development Area will initially be exclusive. So long as Developer retains exclusive development rights, Company will not open or grant a franchise for a Store in the Development Area, enter into another development agreement relating to a Store to be located in the Development Area. This Agreement applies nowhere outside the Development Area, either in terms of Developer's development rights or the competitive protections this Section 9 provides. Developer may lose the exclusive development rights in accordance with Section 10. Moreover, if Developer transfers the franchise for any operating Store, Developer's rights will become non-exclusive in relation to the transferee. Company may enter into a development agreement with the Store's new owner and may permit the new owner to relocate the Store in accordance with the provisions of Company's then current Franchise Agreement.

(b) The exclusivity provided in Section 7(a) will not to any extent prohibit or restrict Company from developing and operating, or awarding rights to franchisees or licensees to develop and operate, Special Outlets in the Development Area. (For purposes of this Agreement, a Special Outlet is a

temporary or seasonal booth, a kiosk, a satellite unit, an express unit, a mini-store, or similar installation, no matter how denominated. The term also includes a mobile dispensing unit, such as a cart or customized RV, but does not include an automobile or van used predominately for Catering or Delivery Service.) This Agreement does not apply to the development of Special Outlets and does not itself authorize or permit Developer to develop Special Outlets.

(c) The exclusivity provided in Section 7(a) will not to any extent prohibit or restrict Company from engaging in the distribution of its proprietary or branded products and other merchandise to or through commercial establishments that are not affiliated with Company or associated with the Kolache Factory service mark or franchise system, including (for example) department stores, supermarkets and convenience stores. Company may exercise its distribution rights, both inside and outside the Development Area, without infringing Developer's competitive protection rights.

(d) Company and its affiliated companies may acquire or be acquired by (in any manner of structure) or merge with another company that operates restaurants under other trademarks and trade names that are located within the Development Area. Such a transaction will not violate the exclusive development rights.

(e) Developer expressly disclaims any right to claim against Company and its affiliate companies arising from any act contemplated by Sections 7(b), (c) and (d).

8. Renewal.

(a) Developer will have a conditional right to secure a renewal of the exclusive right to develop Stores in the Development Area.

(b) Company will permit Developer to renew the term of this Agreement only if all four of the following conditions are satisfied:

(i) Developer opens the full number of Stores indicated in the Development Schedule (taking into account any deadline extensions that Developer obtains in compliance with Section 5);

(ii) Developer does not cause or permit a default to occur under Section 10(b), 10(e), 10(f) or 10(g), whether or not Company exercises its right to terminate Developer's exclusive rights under this Agreement on account of the default;

(iii) All of Developer's Stores are being operated in compliance with Company's quality control and other operational standards, and Developer is not delinquent in paying royalty or other monetary obligations to Company or in submitting required financial reports to Company; and

(iv) Based on its review of the financial information that Developer submits in accordance with Section 8(c)(i), Company is satisfied that Developer is financially capable of completing the development of the additional Stores that Developer proposes to develop.

(c) To secure a renewal of the development rights, Developer must comply with the following procedures:

(i) Not later than the Lease Execution Date of the last Store listed in The Development Schedule, Developer must notify Company of Developer's intention to continue developing Stores in the Development Area and must submit to Company current financial information for Developer and its equity owners on a form acceptable to Company. Developer's notice must specify the number of additional Stores Developer proposes to develop and indicate any changes Developer seeks in the Development Area's boundaries.

(ii) Company will evaluate Developer's financial information and development proposal. If Company determines that Developer qualifies to develop additional Stores, it will furnish Developer a new Development Agreement on the form Company is then using. The exhibits to that agreement will reflect the development area boundaries, number of Stores and development schedule that Company is willing to accept, which may differ from Developer's proposal.

(iii) Within 11 business days after Company furnishes the new Development Agreement to Developer, Developer must sign and return it to Company, together with the development fee specified in that agreement.

9. If Developer is a Business Entity, the following requirements apply:

(a) Developer must be properly organized and in good standing under applicable law, and its governing document must provide that Developer's purposes and activities are restricted exclusively to developing Kolache Factory Stores.

(b) True, complete and duly authenticated copies of Developer's governing document and of a resolution of Developer's board of directors, general partner or other managing body authorizing Developer to enter into and perform this Agreement must be furnished to Company prior to the execution of this Agreement.

(c) Developer's governing documents shall impose transfer restrictions that give effect to Section 11, and each certificate representing an ownership interest in Developer shall contain or have conspicuously noted upon its face a statement in a form satisfactory to Company to the effect that any Transfer of the certificate is subject to all restrictions this Agreement imposes on Transfers.

(d) Developer shall maintain a list of all record and beneficial owners of ownership interests in Developer and shall furnish a current version of the list to Company between December 15th and 31st of each year and upon request.

(e) Developer shall appoint one person who will serve as the Controlling Principal who is approved by Company to be the Controlling Owner. The Controlling Owner shall be Developer's main contact with Company regarding Developer's business and, unless otherwise agreed in writing, will be required to devote their full time best efforts to the development and operation of Kolache Factory Stores. If the initial or any successor Controlling Owner resigns or otherwise leaves Developer's employment, Developer shall notify Company within five days and appoint a suitably qualified replacement Controlling Owner within a reasonable time which shall in no case exceed 30 days from the date of departure.

10. Default and Termination. If Developer:

(a) fails to timely sign a Franchise Agreement for a Store as required by Section 3 or 4;

(b) fails to timely sign an approved lease for any Store in compliance with Section 3 or 4 not later than its Lease Execution Date (taking into account any extension of that date that Developer obtains under Section 5(a));

(c) signs a lease without express written authorization from Company or otherwise proceeds with a Store's development before signing a Franchise Agreement or paying the franchise fee for the Store;

(d) fails to timely open any Store in compliance with this Agreement on or before its Scheduled Opening Date (taking into account any extension of that date that Developer obtains under Section 5(a) or 4(c));

(e) without Company's express prior written permission, fails to have open and operating in the Development Area the cumulative total number of Stores indicated in the Required # of Operating Stores column of the Development Schedule as of the Scheduled Opening Date of any Store (taking into account any extension of a particular Store's Scheduled Opening Date that Developer obtains under Section 5(a) or 5(c));

(f) allows an Event of Default to occur under any Franchise Agreement that is not cured by the end of the related remedial period provided in the Franchise Agreement;

(g) repeatedly fails to operate any Store in compliance with Company's operating standards and procedures, whether or not Company terminates the Franchise Agreement for that Store on account of the default;

(h) attempts a Transfer in contravention of Section 11; or

(i) enters negotiations to lease or obtains an option to lease a site for a Store located outside the Development Area, except pursuant to another effective development agreement between Company and Developer;

then Developer will be in default under this Agreement. If a default occurs, Company may either (i) terminate Developer's exclusive rights to develop Stores in the Development Area, or (ii) terminate all of Developer's rights under this Agreement, in either case by giving Developer written notice of Company's election. Termination of this Agreement will not affect the status of any Franchise Agreement then in effect between Company and Developer.

11. Transfer.

(a) Except as permitted in Sections 11(b) and 11(c), Developer may not attempt or effect an assignment or otherwise transfer this Agreement or any of the development rights under this Agreement either contractually or by operation of law. In that connection, Developer expressly acknowledges and agrees that Company does not permit its franchisee/developers to subfranchise Kolache Factory Stores or to partition or sell undeveloped territory.

(b) If Developer is a corporation, limited liability company or partnership, Company will consent to assignments and transfers of ownership interests among Developer's original equity owners upon its receipt of such documentation and information concerning the assignment or transfer and the resulting ownership of Developer as Company may reasonably request, which may include execution of an assignment of this Agreement in a form approved by Company or execution of a then-current development agreement reflecting the remaining rights and obligations of Developer under this Agreement. If Company agrees to release any retiring equity owner from further liability under this Agreement, the retiring equity owner must also give Company an unconditional, general release of any claims the equity owner may have against Company. If the retiring equity owner is the Controlling Owner, Developer will appoint another Controlling Principal as Controlling Owner within 30 days after the equity ownership in Developer of the retiring equity owner ceases.

(c) The rights of an individual Developer may be devised by will or distributed to the individual's heirs pursuant to the laws of descent and distribution.

(d) No assignment or transfer in contravention of this Section 11 will be binding on Company, and Company will not be obligated to issue any Franchise Agreement under Section 3 or 4 in the name of any person or business entity other than Developer or a person to whom an individual Developer's rights are devised or distributed in accordance with Section 11(c).

12. Notices. All notices or demands required or permitted under this Agreement shall be in writing and shall be delivered either by certified or registered mail, first class postage prepaid, or by commercial courier. Notices delivered by mail or courier shall be addressed to Developer at the address for notices shown in the Summary Page, and to Company as shown on the first page of this Agreement, except that either party may at any time change its address for notices by giving the other party at least 10 days' prior notice in accordance with this Section 12. Notices delivered by mail will be deemed delivered three business days after deposit with the United States Postal Service, first class postage prepaid, certified or registered mail, return receipt requested, addressed; and notices delivered by courier will be deemed delivered on the delivery date shown in the courier's records.

13. Status of Parties. This Agreement is not intended to create, and shall not be interpreted or construed as creating, a franchise, partnership, joint venture, agency, employment, personal services or similar relationship between Company and Developer. No representation to the contrary shall be binding upon Company.

14. Law Governing; Dispute Resolution.

(a) Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§1051 *et. seq.*), this agreement will for all purposes be governed by and interpreted and enforced in accordance with the Internal laws of the State of Texas, except that its choice of law and conflict of law rules will not apply. Notwithstanding the above, Franchisee and each of its owners agrees that the Texas Business Opportunity Act and the Texas Deceptive Trade Practice Act (and any successor laws, rules or regulations thereto) do not apply to the transactions contemplated by this Agreement.

WAIVER OF CONSUMER RIGHTS

I waive my rights under the Deceptive Trade Practices-Consumer Protection Act, Section 17.41 et seq., Business & Commerce Code, a law that gives consumers special rights and protections. After consultation with an attorney of my own selection, I voluntarily consent to this waiver.

(b) The parties mutually agree that the state and federal courts located in the county in which Company has its then current principal place of business (currently the U.S. District Court for the Southern District of Texas, or if such court lacks jurisdiction, the state courts located in Harris County, Texas), will be the exclusive venue and exclusive forum in which to adjudicate any suit, proceeding, claim, demand, investigation, or inquiry, formal or informal (collectively, an “Action”) arising from or relating to this Agreement and any guarantees hereof, undertakings hereunder provided and relationship established thereby, however, with respect to any Action which seeks monies owed, injunctive relief or other extraordinary relief, Company may bring such Action in any court of competent jurisdiction. The parties irrevocably submit to the jurisdiction of such courts and waive any objections to either the jurisdiction of or venue in such courts. The parties mutually agree that personal jurisdiction may be effected by service of process and that when so made will be as if served personally. This Agreement was executed and accepted at Company’s current place of business in Harris County, Texas. The parties anticipate that the performance of certain of Franchisee’s obligations arising under this Agreement, including the payment of certain monies due Company, will initially occur in Harris County, Texas.

(c) The parties waive to the fullest extent permitted by law any right to or claim for any punitive, exemplary, special and consequential damages against the other and agree that, in the event of any Action between the parties, the parties bringing the Action will be limited to equitable relief and to recovery of any direct or general damages it sustains; provided, however that Company will have the right to recover lost profits and all applicable liquidated damages afforded under this Agreement in the event of termination of this Agreement.

(d) Except for an Action arising from Franchisee’s nonpayment or underpayment of amounts Franchisee owes Company pursuant to this Agreement, or an Action related to Franchisee’s unauthorized use of the Marks, any and all Actions arising out of or relating to this Agreement or the relationship created hereby will be barred unless an Action is commenced within two years from the date on which the party asserting such Action knew or should have known of the facts giving rise to such Action.

(e) **JURY TRIAL WAIVER. THE PARTIES IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER PARTY RELATING TO THE RELATIONSHIP BETWEEN THE PARTIES OR ARISING UNDER OR IN ANY WAY CONNECTED WITH THIS AGREEMENT OR ANY RIGHT OR CURE HEREUNDER.**

15. Miscellaneous.

(a) The term “Developer” includes the plural as well as the singular, the masculine and feminine genders, and corporations, partnerships and other business entities as well as individuals.

(b) This Agreement may not be amended or modified except by a written agreement executed by Company and Developer.

(c) Time is of the essence of this Agreement; Developer's compliance with the deadlines stated in this Agreement are vitally important.

16. Developer's Acknowledgments.

(a) Developer acknowledges and agrees that this Agreement, together with any duly signed amendment or addendum attached to this Agreement, contains the entire agreement between the parties with respect to Developer's rights to develop and acquire franchises for Stores in the Development Area, and that this Agreement supersedes any prior or contemporaneous agreements between the parties, written or oral, with respect to those development and franchise acquisition rights; provided that nothing in this Agreement or in any related agreement, however, is intended to disclaim the representation Company made in the franchise disclosure document that Company furnished to Developer. _____

[DEVELOPER'S INITIALS]

(b) Developer confirms and acknowledges that no written or oral agreements, promises, commitments, undertakings or understandings concerning Developer's development or franchise acquisition rights were made to or with Developer that are not expressly stated in this Agreement, any duly signed amendment or addendum or in Company's Franchise Disclosure Document. _____

[DEVELOPER'S INITIALS]

(c) Developer acknowledges (i) that this Agreement is not a franchise agreement and that it provides Developer neither a license to use the Kolache Factory trade name or service mark nor any right to operate a Store, (ii) that Developer's rights under this Agreement are solely contractual and that no property rights are granted in or with respect to the Development Area, and (iii) that until a Franchise Agreement for a particular Store location is issued in accordance with this Agreement, Developer will not have or be entitled to exercise any of the rights or privileges of a Kolache Factory franchisee at or with respect to that location. _____

[DEVELOPER'S INITIALS]

(d) **DEVELOPER ACKNOWLEDGES THAT THE WRITTEN AUTHORIZATIONS REQUIRED BY SECTIONS 3 AND 4 WILL BE VALID ONLY IF SIGNED BY COMPANY'S PRESIDENT. DEVELOPER MAY NOT RELY ON VERBAL OR WRITTEN APPROVALS FROM ANY EMPLOYEE BELOW THE RANK OF PRESIDENT OR FROM ANY AGENT WHO MIGHT REPRESENT COMPANY IN THE FIELD. DEVELOPER ASSUMES FULL RISK AND FINANCIAL RESPONSIBILITY FOR SIGNING A LEASE WITHOUT COMPANY'S PRIOR WRITTEN AUTHORIZATION, INCLUDING THE RISK THAT COMPANY MAY TERMINATE THIS AGREEMENT UNDER SECTION 10(b) ON ACCOUNT OF AN UNAUTHORIZED LEASE SIGNING. COMPANY WILL HAVE NO OBLIGATION TO ISSUE A FRANCHISE FOR A STORE UNLESS AND UNTIL DEVELOPER COMPLIES FULLY WITH ALL APPLICABLE REQUIREMENTS OF SECTIONS 3 AND 4.** _____

[DEVELOPER'S INITIALS]

(e) Company has instructed the vendors with whom Company's franchisees do business not to accept work orders or purchase orders for a Store for which a Franchise Agreement has not signed by Company. Developer acknowledges that Developer will be unable to order fixtures, equipment, signs and inventory for any Store before a Franchise Agreement for that particular Store has been signed by Company. _____

[DEVELOPER'S INITIALS]

(f) Developer acknowledges that all amounts payable under Section 6 represent fees, not deposits, and that none of those fees are refundable in whole or in part under any circumstances. _____

[DEVELOPER'S INITIALS]

(g) Developer acknowledges that it and the owners of any equity interest in Developer are knowingly and voluntarily executing, and agreeing to be bound by the terms of, this Agreement and Company has advised Developer and the owners of any equity interest in Developer to seek legal counsel and a financial advisor to review and evaluate this Agreement. _

[DEVELOPER'S INITIALS]

(h) Developer acknowledges and agrees that, by evaluating and accepting a particular Store location, providing any other site selection assistance to Developer, or authorizing Developer to negotiate or sign a Store lease, Company does not guarantee the suitability of any site for the operation of a Store or warrant that Developer can profitably operate a Store at any location that Company accepts. Company disclaims (and Developer recognizes and accepts Company's disclaimer of) any warranties, express or implied, with respect to the suitability or profit potential of any site Developer selects for a Store.

_____ **[DEVELOPER'S INITIALS]**

KF FRANCHISING, LTD.

DEVELOPER

By: _____

Signature, if an individual

Title: _____

Developer's name, printed

Date: _____ *

Date: _____

*Considered the Effective Date of this Agreement for all purposes

(Corporate, limited liability company and partnership Developers must complete the following:

By: _____

Title: _____

EXHIBIT A

LEASE RIDER

This Lease Rider is entered into this _____ day of _____, 202__ by and between KF Franchising, Ltd. ("Company") _____ ("Franchisee") and _____ ("Landlord").

WHEREAS, Company and Franchisee are parties to a Development Agreement, which is dated _____, 202__ (the "Development Agreement"); and

WHEREAS, the Development Agreement provides that Company and Franchisee will enter into a Franchise Agreement (the "Franchise Agreement") for the operation of a Kolache Factory Store ("Store") after Franchisee secures possession of premises suitable for the Store's operation; and

WHEREAS, Franchisee and Landlord propose to enter into the lease to which this Rider is attached (the "Lease"), pursuant to which Franchisee will occupy premises located at _____
_____ (the "Premises") for the purpose of constructing and operating the Store in accordance with the Franchise Agreement; and

WHEREAS, the Development Agreement provides that, as a condition to Company's authorizing Franchisee to enter into the Lease, the parties must execute this Lease Rider;

NOW, THEREFORE, in consideration of the mutual undertakings and commitments set forth in this Rider and in the Franchise Agreement, the receipt and sufficiency of which the parties acknowledge, the parties agree as follows:

1. During the term of the Franchise Agreement, Franchisee shall be permitted to use the Premises for the operation of the Store and for no other purpose.
2. Subject to applicable zoning laws and deed restrictions and to prevailing community standards of decency, Landlord consents to Franchisee's installation and use of such trademarks, service marks, signs, decor items, color schemes and related components of the Kolache Factory system as Company may from time to time prescribe for the Store.
3. Landlord agrees to furnish Company with copies of all letters and notices it sends to Franchisee pertaining to the Lease and the Premises, at the same time it sends such letters and notices to Franchisee.
4. Company shall have the right, without being guilty of trespass or any other crime or tort, to enter the Premises at any time or from time to time (i) to make any modification or alteration it considers necessary to protect the Kolache Factory system and marks, (ii) to cure any default under the Franchise Agreement or under the Lease, or (iii) to remove the distinctive elements of the Kolache Factory trade dress upon the Franchise Agreement's expiration or termination. Neither Company nor Landlord shall be responsible to Franchisee for any damages Franchisee might sustain as a result of action Company takes in accordance with this provision. Company shall repair or reimburse Landlord for the cost of any damage to the Premises' walls, floor or ceiling that result from Company's removal of trade dress items and other property from the Premises.
5. Franchisee shall be permitted to assign the Lease to Company or its designee upon the expiration or termination of the Franchise Agreement. Landlord consents to such an assignment and agrees not to impose any assignment fee or similar charge, or to increase or accelerate rent under the Lease, in connection with such an assignment.

6. In the event Franchisee assigns the Lease to Company or its designee in accordance with the preceding paragraph, the assignee must assume all obligations of Franchisee under the Lease from and after the date of assignment, but shall have no obligation to pay any delinquent rent or to cure any other default under the Lease that occurred or existed prior to the date of the assignment.

7. Franchisee may not assign the Lease or sublet the Premises without Company's prior written consent, and Landlord will not consent to an assignment or subletting by Franchisee without first verifying that Company has given its written consent to Franchisee's proposed assignment or subletting.

8. Landlord and Franchisee will not amend or modify the Lease in any manner that could materially affect any of the provisions or requirements of this Lease Rider without Company's prior written consent.

9. The provisions of this Lease Rider will supersede and control any conflicting provisions of the Lease.

10. Landlord acknowledges that Company is not a party to the Lease and shall have no liability or responsibility under the Lease unless and until the Lease is assigned to, and assumed by, Company.

[The rest of this page left blank on purpose.]

IN WITNESS WHEREOF, the parties have executed this Lease Rider of the date first above written.

COMPANY:

KF FRANCHISING, LTD.
a Texas limited partnership

By: _____

Name: _____

Title: _____

LANDLORD:

By: _____

Name: _____

Title: _____

FRANCHISEE:

By: _____

Name: _____

Title: _____

STATE SPECIFIC ADDENDA

KF FRANCHISING, LTD.
CALIFORNIA AMENDMENT TO DEVELOPMENT AGREEMENT

For purposes of complying with the requirements of California law, including the California Franchise Investment Law, CAL. CORP. CODE Section 31000 *et seq.* (“CFIL”), and the California Franchise Relations Act, CAL. BUS. & PROF. CODE Section 20000 *et seq.* (the “CRA”), KF Franchising, Ltd. (“KF Franchising”) and _____ (“You”), hereby amend the Franchise Agreement between them dated _____ (the “Agreement”) as follows:

1. Sections 20000 through 20043 of the CRA provide rights to you concerning termination, transfer or non-renewal of the Agreement. The Federal Bankruptcy Code also provides rights to You concerning termination of the Agreement upon certain bankruptcy-related events. To the extent the Agreement contains a provision that is inconsistent with these laws, these laws will control.

2. The franchise agreement requires you to execute a general release of claims upon renewal or transfer of the franchise agreement. California Corporations Code Section 31512 provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that law or any rule or order is void. Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 2000 through 20043).

3. If the Agreement requires payment of liquidated damages that is inconsistent with California Civil Code Section 1671, the liquidated damage clause may be unenforceable.

4. If the Agreement contains a covenant not to compete which extends beyond the expiration or termination of the Agreement, the covenant may be unenforceable under California law.

5. If the Agreement requires litigation, arbitration, or mediation to be conducted in a forum other than the State of California, the requirement may unenforceable under California law.

6. If the Agreement requires that it be governed by a state’s law other than the State of California, such requirement may be unenforceable.

7. No disclaimer, questionnaire, clause, or statement signed by a franchisee in connection with the commencement of the franchise relationship shall be construed or interpreted as waiving any claim of fraud in the inducement, whether common law or statutory, or as disclaiming reliance on or the right to rely upon any statement made or information provided by any franchisor, broker or other person acting on behalf of the franchisor that was a material inducement to a franchisee’s investment. This provision supersedes any other or inconsistent term of any document executed in connection with the franchise.

8. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 202_.

ATTEST:

KF FRANCHISING, LTD.

By: _____

Name: _____
Title: _____

DEVELOPER:

Witness

By: _____
Name: _____
Title: _____

KF FRANCHISING, LTD.
ILLINOIS AMENDMENT TO DEVELOPMENT AGREEMENT

For purposes of complying with the requirements of Illinois law, including the Illinois Franchise Disclosure Act of 1987, Ill. Rev. Stat. ch. 815 para. 705/1 – 705/44 (1994) (the “Illinois Franchise Act”), KF Franchising, Ltd. (“Company”) and _____ (“You”), hereby amend the Development Agreement between them dated _____ (the “Agreement”) as follows:

1. Section 705/19 and 705/20 of the Illinois Franchise Act provide rights to you concerning nonrenewal and termination of a franchise. If the Agreement contains a provision that is inconsistent with the Illinois Franchise Act, the Illinois Franchise Act will control.

2. Section 41 of the Illinois Franchise Act states that "any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void."

3. Any provision that designates jurisdiction or venue or requires you to agree to jurisdiction or venue in a forum outside of Illinois is void with respect to any cause of action which is otherwise enforceable in Illinois, except arbitration may take place outside the state of Illinois.

4. Illinois law shall govern the Agreement.

5. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of Illinois law applicable to the provisions are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

6. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 202_.

KF FRANCHISING, LTD.

Witness

By: _____
Name: _____
Title: _____

DEVELOPER:

Witness

By: _____
Name: _____
Title: _____

KF FRANCHISING, LTD.
MARYLAND AMENDMENT TO DEVELOPMENT AGREEMENT

For purposes of complying with the requirements of Maryland law, including the Maryland Franchise Registration and Disclosure Law, MD. BUS. REG. CODE ANN. § 14-201 et. seq. (2015 Repl. Vol.) (the “Maryland Franchise Law”), KF Franchising, Ltd. (“Company”) and _____ (“You”), hereby amend the Development Agreement between them dated _____ (the “Agreement”) as follows:

1. Section 14-226 of the Maryland Franchise Law prohibits a franchisor from requiring a prospective franchisee to assent to any release, estoppel or waiver of liability as a condition of purchasing a franchise. To the extent that the Development Agreement requires you to disclaim the occurrence and/or acknowledge the non-occurrence of acts that would constitute a violation of the Maryland Franchise Law in order to purchase your franchise, the Agreement is amended to reflect that such representations are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Law.

2. Pursuant to COMAR 02.02.08.16L, the Agreement is amended to reflect that:

(a) Any release required as part of the Agreement or as a condition of the sale, renewal and/or assignment/transfer of the franchise shall not apply to any liability under the Maryland Franchise Law.

(b) Any claims arising under the Maryland Franchise Law must be brought within three (3) years after the grant of the franchise.

(c) Any provision in the Agreement which requires litigation to be conducted in a forum other than the State of Maryland will not limit any rights you may have under the § 14-216(c)(25) of the Maryland Franchise Law to bring suit for claims arising under the Maryland Franchise Law in the State of Maryland.

3. Section 17 of the Agreement is supplemented by the following provision:

These acknowledgements will not serve as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Law.

4. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of Maryland law applicable to the provisions are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

5. As to any state law described in this Amendment that declares void or unenforceable any provision contained in the Agreement, Company reserves the right to challenge the enforceability of the state law.

6. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 202_.

KF FRANCHISING, LTD.

Witness

By: _____
Name: _____
Title: _____

DEVELOPER:

Witness

By: _____
Name: _____
Title: _____

KF FRANCHISING, LTD.
MINNESOTA AMENDMENT TO DEVELOPMENT AGREEMENT

For purposes of complying with the requirements of Minnesota law, including the Minnesota Franchise Act, Minn. Stat. Section 80.01 *et seq.* and the rules and regulations promulgated thereunder, KF Franchising, Ltd. ("Company") and _____ ("You"), hereby amend the Development Agreement between them dated _____ (the "Agreement") as follows:

1. Sec. 80C.14, Subd. 4 of the Minnesota Franchises Act requires, except in certain specified instances, that Company give you written notice of its intention not to renew the franchise 180 days before the franchise expires, and to give you sufficient opportunity to operate the franchise in order to enable you to recover the fair market value of the franchise as a going concern. Requirements imposed under the Minnesota Franchise Act will supersede inconsistent provisions contained in the Agreement.

2. Sec. 80C.14, Subd. 3 of the Minnesota Franchises Act requires, except in certain specified instances, that Company give you 90 notice of termination (with 60 days to cure). Requirements imposed under the Minnesota Franchises Act will supersede inconsistent provisions contained in the Agreement.

3. Any release of claims or acknowledgment of fact contained in the Agreement that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Minnesota Franchises Act or a rule or order promulgated thereunder shall be void with respect to claims arising under the Minnesota Franchises Act.

4. Sec. 80C.17, Subd. 5 of the Minnesota Franchises Act provides that no action may be commenced thereunder more than three (3) years after the cause of action accrues. To the extent that Section 16.8 conflicts with this law, the law will control.

5. Secs. 80C.21 of the Minnesota Franchises Act and Minn. Rule 2860.4400J prohibit Company from requiring litigation to be conducted outside Minnesota. Nothing in the Agreement will, or is intended to, abrogate or reduce any of your rights as provided for in the Minnesota Franchises Act or your rights to any procedure, forum or remedies provided for by the laws of the Minnesota.

6. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of Minnesota law applicable to the provisions are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

7. As to any state law described in this Amendment that declares void or unenforceable any provision contained in the Agreement, Company reserves the right to challenge the enforceability of the state law.

8. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 202_.

KF FRANCHISING, LTD.

Witness

By: _____
Name: _____
Title: _____

DEVELOPER:

Witness

By: _____
Name: _____
Title: _____

KF FRANCHISING, LTD.
NEW YORK AMENDMENT TO DEVELOPMENT AGREEMENT

For purposes of complying with the requirements of New York law, including the General Business Law, Article 33, Sections 680 through 695 (1989) and the rules and regulations promulgated thereunder, KF Franchising, Ltd. ("Company") and _____ ("You"), hereby amend the Development Agreement between them dated _____ (the "Agreement") as follows:

1. If you are required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the General Business Law, regulation, rule or order under the Law, such release shall exclude claims arising under the New York General Business Law, Article 33, Section 680 through 695 and the regulations promulgated thereunder, and such acknowledgments shall be void. It is the intent of this provision that non-waiver provisions of Sections 687.4 and 687.5 of the General Business Law be satisfied.

2. If the Agreement requires that it be governed by a state's law, other than the State of New York, the choice of law provision shall not be considered to waive any rights conferred upon you under the New York General Business Law, Article 33, Sections 680 through 695.

3. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of New York law applicable to the provisions are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

4. As to any state law described in this Amendment that declares void or unenforceable any provision contained in the Agreement, KF Franchising, Ltd. reserves the right to challenge the enforceability of the state law.

5. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 202_.

KF FRANCHISING, LTD.

Witness

By: _____
Name: _____
Title: _____

DEVELOPER:

Witness

By: _____
Name: _____
Title: _____

KF FRANCHISING, LTD.
WASHINGTON AMENDMENT TO DEVELOPMENT AGREEMENT

For purposes of complying with the requirements of Washington law, including the Washington Franchise Investment Protection Act, and the rules and regulations promulgated thereunder, KF Franchising, Ltd. and _____ (“_____”), hereby amend the Development Agreement between them dated _____ (the “Agreement”) as follows:

1. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.

2. RCW 19.100.180 may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

3. In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

4. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

5. Transfer fees are collectable to the extent that they reflect the franchisor’s reasonable estimated or actual costs in effecting a transfer.

6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee’s earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor’s earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

8. All other provisions of the Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties acknowledge that they have read and understand the contents of this Amendment, that they have had the opportunity to obtain the advice of counsel. Intending to be legally bound, the parties have duly executed and delivered this Amendment on _____, 202_.

KF FRANCHISING, LTD.

Witness

By: _____
Name: _____
Title: _____

DEVELOPER:

Witness

By: _____
Name: _____
Title: _____

EXHIBIT D

LOYALTY AND GIFT CARD PARTICIPATION AGREEMENT

LOYALTY AND GIFT CARD PARTICIPATION AGREEMENT KOLACHE FACTORY

This Loyalty and gift Card Participation Agreement (the “LAGC Agreement”), dated as of _____, 20____, is entered into by and among KF Franchising, Ltd, a Texas limited partnership (“Franchisor”), and _____, a _____, (“Franchisee”).

1. General.

a. Franchisee owns and operates the Kolache Factory stores (whether singular or plural, the “Stores”) listed on Exhibit A pursuant to certain franchise agreements, which, among other things, obligate Franchisee to operate the Stores in accordance with the Franchisor’s System, as that term is used in the Franchise Agreement (the “System”).

b. Kolache Factory, Inc.(“Kolache Factory”), an affiliate of Franchisor, has developed and is making available to Franchisee a new loyalty and gift card program (the “Gift Card Program”) which will be administered by a third party provider contracted through Paytronix Systems, Inc. (“Paytronix”), a Delaware company. Paytronix will administer a system of remote activation, reconciling, reloading, responding to inquiries and redemption of stored value gift cards (“Gift Cards”) to be issued by Kolache Factory, certain of its affiliates, approved Kolache Factory franchisees and by other third parties authorized by Franchisor. The Gift Cards may be redeemed for goods and/or services at any participating Store. Kolache Factory has adopted the Gift Card Program as part of its System and authorized and required Franchisor and its franchisees to use the Gift Card Program as part of the System. Franchisee acknowledges that the Gift Card Program is part of the System.

2. Accounting and Payments.

a. Franchisor will establish and maintain an account separate from its own operational and other accounts in which Gift Card funds will be held. Franchisor anticipates that reconciliation of the funds held in the separate account will be performed on a monthly basis, but may elect to reconcile quarterly. Kolache Factory may terminate its arrangement with Paytronix and arrange for a successor Gift Card Program with another administrator at any time, and this LAGC Agreement shall remain effective as to the successor administrator notwithstanding such termination of the relationship with Paytronix.

b. In consideration for being approved by Franchisor to participate in the Gift Card Program and the benefits to the System, Franchisee agrees to pay the fees set forth in the Manual as it may be revised. Until such time as Franchisor notifies Franchisee in writing differently, all costs, expenses and fees arising from the Gift Card Program shall be underwritten by the Ad Fund maintained by Franchisor, as described in Franchisee’s Kolache Factory franchise agreement. Franchisee acknowledges that changes in the Gift Card Program may occur or that Franchisee’s contributions to the Ad Fund may not be sufficient to cover costs, expenses and fees of the Gift Card Program; therefore, Franchisor may give Franchisee 30 prior written notice of different arrangements for payment of the costs, expenses and fees of the Gift Card Program, including a right to automatically draft from Franchisee’s designated bank account(s) by ACH.

c. Amounts due to/from Franchisee for redemptions of Gift Cards will be automatically credited/debited to/from Franchisee's designated bank account(s) by ACH. In order to set up the ACH, Franchisee will complete and sign an ACH authorization form for each bank account in the form provided by Kolache Factory or in the Manual, and will send the original(s) to Franchisee's bank and copy(ies) to Franchisor. While the Gift Card Program is in effect, Franchisee will provide updated information and forms as requested by Franchisor, including such information and forms as needed for any new Store or bank accounts opened by Franchisee. These accounts will be used to facilitate and administer honoring all Gift Card Program financial obligations and maintain proper funding, including payment of all program fees.

3. Franchisee's Agreements.

a. Franchisee agrees to participate in and implement the Gift Card Program in accordance with supplements to the Manual, as defined in Franchisee's franchise agreement. Franchisee agrees that all of Franchisee's Stores shall participate in the Gift Card Program throughout the term of the Gift Card Program. Franchisee agrees to honor all Gift Cards as presented and as prescribed in the Manual for such period of time as any Gift Cards remain available for redemption.

b. Franchisee shall receive services with respect to the Gift Card Program as set forth in the Manual so long as (i) Franchisee is not in default of the Gift Card Program and its Store franchises and (ii) the Gift Card Program continues. Franchisee agrees to comply with the terms and conditions of this LAGC Agreement and the Manual as it relates to the Gift Card Program. Failure by Franchisee to comply with the terms of this LAGC Agreement or the Manual after 10 days written notice of default and opportunity to cure from Franchisor to Franchisee is a default of this LAGC Agreement and a default of each Franchise Agreement for each of Franchisee's Stores that has caused a default. Upon an uncured default, Franchisor may suspend Franchisee's participation in the Gift Card Program until the default is cured or terminate this LAGC Agreement as it applies to any or all of Franchisee's Stores by written notice to Franchisee.

4. Gift Card Obligations. Franchisee agrees that Gift Cards may only be redeemed through retail sales of goods and services at its Stores. Franchisee agrees to maintain full and accurate records of all such retail sales and make them available for review by Franchisor upon request. Franchisee acknowledges and agrees that Gift Cards sold by parties other than Kolache Factory, Franchisor or Franchisee may be sold at a discount to face value; notwithstanding, Franchisee's payments arising from such sales will be at face value. Franchisee agrees it will not (a) discount the face value of Gift Cards, (b) distribute Gift Cards without collection of the applicable face value of the Gift Card, or (c) use Gift Cards in payment of any obligation of Franchisee to third parties, each except as Franchisor may approve in advance in writing. Franchisee agrees to promptly notify Franchisor if it becomes aware of any purchases of Gift Cards arising from credit card fraud.

5. Guaranty. To the extent that Franchisee breaches this LAGC Agreement and Franchisor, Kolache Factory or any franchisee suffers any damages arising from or in connection with such breach, the persons or entities who have guaranteed the Franchise Agreement(s) shall also

guaranty the performance of Franchisee pursuant to this LAGC Agreement. Such guaranty is evidenced by the signatures shown on the signature page of this LAGC Agreement.

6. Access to Database; Equipment. Franchisee's Store personnel must be able to access the Gift Card Program database. It is Franchisee's sole responsibility to provide and install and maintain the necessary equipment and other related items for the proper working of the Gift Card Program as set forth in the Manual.

7. Liability and Indemnification.

a. The cumulative liability of Franchisor and its affiliates (including Kolache Factory) to Franchisee for all losses, claims, suits, controversies, breaches, or damages arising out of or in connection with this LAGC Agreement for any cause whatsoever SHALL BE LIMITED TO THE ACTUAL DAMAGES SUFFERED BY FRANCHISEE, AND SHALL NOT INCLUDE CONSEQUENTIAL OR PUNITIVE DAMAGES. Under no circumstances will Franchisor or Kolache Factory be liable to Franchisee on account of errors, omissions or willful misconduct by Paytronix or its successor.

b. To the extent that any claim, loss, liability or damage (collectively, the "Claims") is caused by or arises out of any acts or omissions on the part of Franchisee, Franchisee shall indemnify and hold harmless Franchisor, Kolache Factory, their affiliates and each of their partners, directors, officers, employees and agents from and against such Claims (including reasonable attorneys' fees) arising out of or with respect to this LAGC Agreement or the Gift Card Program.

8. Termination and Amendment of Gift Card Program.

a. Kolache Factory will review this program yearly and, in the event Kolache Factory deems it necessary or advisable to terminate the Gift Card Program for both company and franchised units, Franchisor may terminate this LAGC Agreement at any time upon at least 90 days prior written notice to Franchisee. Franchisor may terminate this LAGC Agreement immediately upon any failure by Franchisee to comply with any monetary or system requirements in this LAGC Agreement or the Manual. In addition, upon written notice to Franchisor dated between March 1 and March 31 of any given calendar year in which this LAGC Agreement remains in effect, Franchisee may petition Franchisor for an exception allowing Franchisee to stop participation in the Gift Card Program. Such written notice shall detail the reasons why Franchisee is seeking this exception.

b. Kolache Factory may revise the terms and conditions of the Gift Card Program if advisable or necessary by applicable law. Kolache Factory will publish any such revisions in the Manual. Revised terms and conditions will be effective as of the date provided in the Manual.

9. Laws. Franchisee shall comply with all laws and regulations applicable to the Gift Card Program, including, but not limited to, the Fair Credit Reporting Act and all laws governing privacy and consumer information regulations. It is Franchisee's responsibility to educate itself regarding such laws. Franchisee acknowledges that the Gift Card Program is subject to laws regarding unclaimed property (escheat), consumer protection laws, and federal and state laws regarding required disclosures, and that other laws may apply.

10. Assignment. Franchisee may not assign any of its rights or obligations under this LAGC Agreement without the express written consent of Franchisor. Franchisor will not unreasonably withhold its written consent to such assignment. Franchisee's interest in whole or in part in this LAGC Agreement may be assigned only in conjunction with the sale of Franchisee's Store(s). Franchisor may assign its rights or obligations under this LAGC Agreement, by contract, or by acquisition, disposition or merger or other consolidation.

11. Acknowledgment and Representation. Franchisee acknowledges and represents to Franchisor that it has not received any representations, claim or promises by Franchisor or Kolache Factory regarding income, profits or the success of the Gift Card Program.

12. Notices; Amendments. All notices between the parties must be in writing and shall be given pursuant to the notice provision of the Franchise Agreement. This LAGC Agreement contains the entire understanding between the parties with respect to the subject matter of this LAGC Agreement and may not be amended, canceled, or superseded, or waived, except by a written instrument executed by each of the parties to be charged, except as it may be modified pursuant to revisions to the Manual.

13. Governing Law; Dispute Resolution; Miscellaneous. This LAGC Agreement and the interpretation and enforcement thereof shall be governed by the laws of the State of Texas. Franchisee agrees to be bound by the provisions of the Franchise Agreement that provides for mediation and binding arbitration to settle disputes. Franchisee irrevocably submits itself to jurisdiction in the State of Texas and venue in any state or federal district court sitting in Harris County for such purposes. This LAGC Agreement shall be binding upon, and inure to the benefit of, the parties and their respective heirs, successors and assigns. This LAGC Agreement may be executed in one or more counterparts. Facsimile counterparts shall be deemed to be originals.

The Signature Page is on the next page.

SIGNATURE PAGE

FRANCHISOR:

KF Franchising, Ltd.
By Kolache Factory Management, L.L.C.,
Its General Partner

FRANCHISEE:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

GUARANTOR(S):

The undersigned hereby jointly and severally guarantee the performance and payment by Franchisee of its obligations under the LAGC Agreement and the Manual.

By: _____
Name: _____
Date: _____

By: _____
Name: _____
Date: _____

EXHIBIT A

Franchisee: _____

Store Addresses:

EXHIBIT E

KOLACHE FACTORY FRANCHISE
TABLE OF CONTENTS TO OPERATIONS MANUAL

Chapter	Webpages
UNDERSTANDING FRANCHISING	14
Unified Thinking	2
Purpose of Franchising	1
Purpose of Business	1
Purpose of A Franchise Company	1
Function of Brand	1
Function of the Operating System	1
Importance of Language	1
Who Owns What?	1
Strategic Partners	1
Fees - What They Mean	3
Initial Franchise Fee	1
Royalty Fees	1
Customer-Driven Company	1
THE KOLACHE FACTORY FRANCHISE SYSTEM	12
Our Mission For Excellence	1
Manual Organization	1
Ownership of the Manual	1
Purpose of this Manual	1
Importance of Confidentiality	1
Keeping the Manual Current	1
Submitting Suggestions to Us	1
Who to Call	1
Disclaimer	1
Annual Conference and Webinars	1
Fees	1
PRE-OPENING PROCEDURES	49
Introduction	1
Your Status as a Franchisee	1
Site Selection Process	6
Site Selection Criteria	1
Market Analysis	1
Seeking Approval of Proposed Sites	1
Lease Considerations	1
Seeking Approval of Lease	1
Licenses, Permits, and Taxes	8
Introduction	1

Business Licenses and Permits	1
Optional Certifications	1
Tax Registrations and Payments	1
Sales Tax	1
State Information Web Sites	1
Additional Resources	1
Training	3
Scheduling Initial Training	1
Initial Training Program	1
Building out the Facility	10
Discovery and Layout	1
Architectural	1
Permitting	1
Bids	1
Construction	1
Procedures for Submitting an Architect or General Contractor for Approval	1
Training	1
Opening	1
Sample Timeline	1
Setting Up Your Facility	4
Required Fixtures, Furnishings, Equipment and Supplies	1
Information Systems	1
Sign Requirements	1
Initial Inventory / Food	1
Utilities / Services	1
Merchant Accounts	1
Insurance Coverage	4
General Insurance Requirements	1
Minimum Coverage Amounts	1
Insurance Company Requirements	1
Pre-Opening/Opening	7
Marketing	1
Staffing	1
Prepare the Store	1
Friends and Family Breakfast	1
Soft Open	1
Grand Opening	1
Project Task list	1

HUMAN RESOURCES	60
Introduction	1
Non-Joint-Employer Status	1
Employment Law Basics	4
Employee Rights / Employer Responsibilities	1
Federal Regulations on Employment Relationships	1
State Employment Laws	1
OSHA	3
Federal Standards	1
State OSHA Programs	1
Preparing to Hire Your First Employee	1
Job Responsibilities and Ideal Employee Profiles	3
Profiles of Ideal Employees	1
Job Descriptions	1
Recruiting Employees	4
Sources of Employee Candidates	1
Job Advertisements	1
No Requirement to Advertise Open Positions	1
Job Applications	3
Application Form	1
Confidentiality of Applications	1
Interviewing Job Applicants	4
Preparing For Interviews	1
Conducting Successful Interviews	1
Questions to Avoid	1
Miscellaneous Hiring Issues	1
New Employee Paperwork	1
Additional Steps in Hiring Process	1
Uniforms - Dress Code	3
Clothing	1
Appearance Standards	1
New Employee Orientation	2
Introductory Period	1
New Employee Training	3
Employee Training Outline	1
The Importance of Cross Training	1
Personnel Policies	3
Introduction	1

Communicating Work Rules	1
Paying Your Employees	4
Wages	1
Minimum Wage	1
Benefits	1
Employee Scheduling	1
Employee Management Forms	1
Employee Morale / Motivation	4
Factors of Good Morale	1
Signs of Bad Morale	1
Improving Morale and Motivation	1
Performance Evaluations	1
Employee Discipline	1
Resignation / Termination	7
Resignation	1
Termination	1
Post-Separation Procedures	1
Final Paychecks	1
Explaining Termination to Other Employees	1
Giving References	1
Summary of Good Employee Management Practices	1
Getting Legal Help with Employment Law Issues	1
GENERAL OPERATING PROCEDURES	64
Introduction	1
The Kolache Factory Way	6
Core Characteristics	1
Purpose Statements	1
Core Values	1
Vision	1
Behavioral Competencies	1
Required Days / Hours of Operation	1
Store Open / Close Procedures	5
Daily Manager's Checklist	1
Cashier's Daily Checklist	1
Daily Closing Procedures	1
End of Day Store Closing Procedure Checklist	1
Customer Service Policies and Procedures	6
Customer Feedback	1

Customer Complaints	1
Refund Requests	1
Dealing with Difficult Customers	1
Nutritional Chart & Disclaimers	1
Music Policy	1
Product Knowledge	3
Limited Time Offer Flavors	1
Half Off Policy	1
COVID19 Special Sanitary Procedures	1
Time Only as a Health Control	1
Generating Profit	8
Increased Productivity	1
Cost Control	1
Operating Costs:	1
Labor	1
Analyzing Costs	1
Calculating Food Costs	1
Food (Production Report)	1
Required Cleaning and Maintenance	17
Daily Cleaning and Maintenance	11
Weekly Cleaning and Maintenance	1
Monthly Cleaning and Maintenance	1
Pest Control	1
Exterior Maintenance	1
Storage and Broken Equipment	1
Safety Procedures	13
Preventing Accidents and Injuries	1
Material Safety Data Sheets	1
Acts of God	1
Crisis Management Policy	1
Reporting Accidents	1
Emergency / Accident Procedure Action Plan	1
Workers' Compensation Issues	1
Fire Safety	1
Robbery / Burglary	1
Unruly Customers	1
Security Cameras	1
Using the Alarm System	1

FRONT OF HOUSE PROCEDURES	37
The Kolache Factory Service Steps	12
Welcome	1
Menu Tour	1
Take Order	1
Fill Order	1
Beverage Upsell	1
Confirm Order	1
Heat Kolaches	1
Confirm Subtotal	1
Request Donation	1
Take Payment	1
Thank You	1
Boxing and Bagging	1
Telephone Orders	1
Online Orders	1
Cash Handling Procedures	5
Making Transactions and Handling Cash	1
Basic Rules for Handling Cash	1
Cash Transactions	1
The Daily Cash Report	1
Accepting Credit Cards	2
Proper Handling of Sensitive Credit Card Information	1
Doorbell	1
FOH Sanitation Procedures	7
Handwashing Procedures	1
Safe Food Handler Guidelines	1
Building and Equipment Guidelines	1
Food Handling Guidelines	1
6:00 a.m. to 2:00 p.m. Front of House Checklist	1
Utensils	1
Deliveries / Dispatch	1
Gift Cards	1
First Responders and Military Discount	1
Full-Service Catering	1
Curbside Service	1
Tip Jar Procedures	1
BACK OF HOUSE PROCEDURES	29

Production Forecasting	1
Dough Preparation	4
Recipe	1
Dough Production and Portioning	1
Divider Rounder	1
Rotation	2
General Prepping	1
Menu Production Procedures	1
Baking Standards	5
Kolaches per tray	1
Colors	1
Procedures for Handling Egg	1
Preparing Kolaches Ahead of Time	1
Coffee / Espresso	2
Coffee TOGO	1
Inventory Management	10
Product Ordering Procedures	1
Knowing When to Stop Receiving Orders	1
Food Trak	1
Ordering from Approved Suppliers	1
Changing Approved Suppliers	1
Product Receiving Procedures	1
Storing Procedures	1
Labeling and Rotating Inventory	1
Spoilage	1
Loss Prevention Techniques	3
Cash	1
Inventory	1
FIELD AUDITS	6
Field Audits	4
Follow-up	1
Sample Field Audit Report	1
Product Discard Report - Machine Quarantine	1
Mystery Shopper Report	1
FINANCE AND ACCOUNTING	6
Introduction to Finance and Accounting	1
Chart of Accounts	1
Operational and Financial Reporting	3

Reports	1
Important Deadline Dates	1
MARKETING	38
Promoting our Business in Your Area	6
Your General Obligations	1
Guidelines for Using Marks	1
Marketing Standards	1
Logo Usage	1
Portal	1
Required Marketing Expenditures	5
System Marketing	1
Local Marketing Best Practices	1
Regional Cooperative Advertising	1
Grand Opening	1
Local Advertising & Marketing Report (LAM)	1
Social Media	6
SM Policy	1
Facebook	1
YELP	1
Google	1
YEXT	1
Local Marketing	13
Introduction	1
Newspaper	1
Direct Mail	1
Thanx - Loyalty	1
Coupons	1
Broadcast	1
Specialty Advertising	1
Billboards	1
Magazines	1
Internet	1
Networking	1
Word of Mouth / Customer Referrals	1
Public Relations / Community Involvement	6
Press Releases	1
Local Chamber of Commerce	1
Team Sponsorships	1

Community Service / Charitable Activities	1
Obtaining Marketing Approval	1
ADDITIONAL RESOURCES	7
Websites for Small Businesses	1
Websites for Organizations	1
Websites for Employment Laws	1
Website for Tax Information	1
Recommended Books	2
QBQ! The Question Behind the Question: Practicing Personal Accountability in business and in Life	1

Doc Library: 34 Documents

Chapter	Documents
Pre-Opening Files	1
Human Resource Files	10
General Operating Procedures Files	11
Time Only As A Health Control	4
Front of House Files	4
Back of House Files	0
Field Report Files	6
Finance and Accounting Files	1
Marketing Files	1

EXHIBIT F

LIST OF CURRENT FRANCHISEES (as of December 31, 2021)

California

Ted & Kathy Skaff
14091 Newport Avenue
Tustin, CA 92780
949-305-9565

Frank Angelle
10880 Louetta Rd. #A
Houston, TX 77035
281-257-5855

Huu Bahn
8622 Hwy. 6 North
Houston, TX 77095
281-855-4770

Indiana

Rolando (Lan) Haywood
13448 Penniger Road
Carmel, IN
317-797-4747

Afsheen Dehgani
17739 U.S. 249
Houston, TX 77064
832-237-2200

Missouri

Ryan & Jennifer Smith
2604 S. Brentwood
Brentwood, MO 63144
314-968-2253

Afsheen Dehgani
14095 N.W. Frwy. #B
Houston, TX 77040
713-996-7757

Nebraska

Andy Wilber
4105 South 84 Street
Omaha, NE 68127
402-218-1998

Bahram (Sam) Pirzad
15021 S. Post Oak
Houston, TX 77035
713-271-4444

New Mexico

Robert Rundle
8001 Wyoming Blvd. NE
Albuquerque, New Mexico 87113
505-363-9382

Frank Angelle
10705 Spring Green Blvd., Suite 900
Katy, TX 77494
281-394-7977

South Carolina

Dean Lord
3609 Hwy 153
Powdersville, SC 29611
864-605-7051

Bee Vines
6215 Hwy. 6, Suite 200
Missouri City, TX 77459
281-261-1122

Texas

Huu Banh
25823 Hwy. 290 #K
Cypress, TX 77429
281-758-3200

Peter Kang
1217 Coit Rd.
Plano, TX 75075
972-867-9683

Frank Angelle
5941 FM 2920 #A
Spring, TX 77388
281-528-9809

Benny Loo & Holland Kun
528 Bay Area Blvd., Ste 200
Webster, TX 77598
281- 557-2253

Afsheen Dehgani
127 A Sawdust Road
Woodlands, TX 77380
281-292-1133

David & Gabriela Stephenson
601 E. FM 544 #100
Murphy, TX 75094
972-442-6578

Peter Kang
5995 Preston Road
Frisco, TX 75034
214-387-0001

Anaand & Ankita Patel
7315 Fairmont Parkway #100
Pasadena, TX 77505
281-709-4175

Afsheen Dehgani
1395 Northpark Dr.
Kingwood, TX 77339
832-780-2354

Afsheen Dehgani
1500 Research Forest
Shenandoah, TX 77381
281-419-5537

Afsheen Dehgani
1351-D W. Davis
Conroe, TX 77304
936-539-2050

David & Gabriela Stephenson
2051 N. Central Expressway
Richardson, TX 75080
214-272-9204

Gary and Connie Price
5667 FM 1488
Magnolia, TX 77354
281-259-2253

Luis Ferro
23021 Morton Ranch Road, Suite A
Katy TX 77449
346-388-0240

Jason Montegut
306 Gulf Frwy North
League City, TX 77573
281-784-0010

Virginia

Chris Klein
460 S. Independence Blvd.
Virginia Beach, VA 23452
757-286-9252

Franchisees with Signed Agreement Location to be Determined:

California

Theodore & Kathy Skaff
23 Deerwood
Aliso Viejo, CA 92656
949-305-9565

New Mexico

Robert Rundle
8001 Wyoming Blvd. NE
Albuquerque, New Mexico 87113
505-363-9382

South Carolina

Dean Lord
8 Mallard Ct.
Greenville, SC 29617
607-760-0216

Texas

Antonio Palomin
4629 Oakdale
Bellaire, TX 77401
832-425-2233

Bee Vines
9612 HWY 6 South
Missouri City, TX 77459
832-792-6331

EXHIBIT G

FRANCHISEES WHO HAVE LEFT THE SYSTEM IN THE LAST FISCAL YEAR

Franchisees Who Were Terminated in 2021:

None

Franchisees Who Left System in 2021 by Ownership Transfer:

None

Franchisees Who Voluntarily Ceased to do Business in 2021:

Andy Wilber
12321 West Maple
Omaha, NE 68164

Franchisees Who Cancelled Their Agreements Before Opening:

None

EXHIBIT H

STATE ADMINISTRATORS

California

Department of Financial Protection and Innovation
320 West 4th Street, Suite 750
Los Angeles, California 90013
(866) 275-2677 or (213) 576-7500

Hawaii

Department of Commerce and Consumer Affairs
Business Registrations Division
335 Merchant Street, Room 203
Honolulu, Hawaii 96813
(808) 586-2722

Illinois

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

Indiana

Franchise Section
Securities Division
302 W. Washington St., Room E-111
Indianapolis, Indiana 46204
(317) 232-6681

Kentucky

Office of the Attorney General
1024 Capital Center Drive
Frankfort, Kentucky 40602
(502) 696-5300

Maryland

Office of Attorney General
Securities Division
200 St. Paul Place
Baltimore, Maryland 21202
(410) 576-6360

Michigan

Office of the Attorney General
Consumer Protection Division
Antitrust and Franchise Section
G. Mennen Williams Building, 1st Floor
525 W. Ottawa Street
P.O. Box 30213
Lansing, Michigan 48913
(517) 373-7117

Minnesota

Department of Commerce
85 7th Place East, Suite 500
St. Paul, Minnesota 55101-2198
(651) 296-4026

Nebraska

Department of Banking and Finance
1526 K Street, Suite 300
P.O. Box 95006
Lincoln, Nebraska 68508
(402) 471-3445

New York

NYS Department of Law
Investor Protection Bureau
28 Liberty St. 21st fl
New York, NY 10005
212-416-8222

North Dakota

North Dakota Securities Department
600 East Blvd., Fifth Floor
Bismarck, North Dakota 58505
(701) 328-4712

Oregon

Division of Consumer and Business Services
Finance and Corporate Securities
350 Winter Street N.E.
Labor and Industries Building, Room 21
Salem, Oregon 97310
(503) 378-4387

Rhode Island

Securities Division
1511 Pontiac Avenue
John O. Pastore Complex – Building 69-1
Cranston, Rhode Island 02920
(401) 222-3048

South Dakota

Department of Labor and Regulation
Division of Securities
124 S Euclid, Suite 104
Pierre SD 57501
(605) 773-401

Texas

Statutory Document Section
Secretary of State
P.O. Box 12887
Austin, Texas 78711
(512) 475-1769

Utah

Division of Consumer Protection
Utah Department of Commerce
160 East Three Hundred South
P.O. Box 146704
Salt Lake City, Utah 84114-6704
(801) 530-6601

Virginia

State Corporation Commission
Division of Securities and Retail Franchising
1300 East Main Street, 9th Floor
Richmond, Virginia 23219
(804) 371-9051

Washington

Department of Financial Institutions
Securities Division
150 Israel Road, S.W.
Tumwater, Washington 98501
(360) 902-8760

Wisconsin

Division of Securities
Department of Financial Institutions
P.O. Box 1768
Madison, Wisconsin 53701 or
201 Washington Avenue, Suite 300
Madison, Wisconsin 53703
(608) 266-8559

EXHIBIT I

AGENTS FOR SERVICE OF PROCESS

California

Commissioner of Financial Protection and
Innovation
Department of Corporations
320 West 4th Street, Suite 750
Los Angeles, California 90013-2344

Illinois

Illinois Attorney General
500 South Second Street
Springfield, Illinois 62706

Indiana

Secretary of State
201 State House
200 W. Washington Street
Indianapolis, Indiana 46204

Maryland

Maryland Securities Commissioner
Office of the Attorney General
200 St. Paul Place
Baltimore, Maryland 21202-2020

Minnesota

Commissioner of Commerce
85 7th Place East, Suite 500
St. Paul, Minnesota 55101-2198

New York

Secretary of State
99 Washington Avenue
Albany, NY 12231

Texas

John H. Banks
23240 Westheimer Parkway, Suite A
Katy, Texas 77494

Virginia

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

Washington

Director of Financial Institutions
Securities Division
150 Israel Road, S.W.
Tumwater, Washington 98501
360-902-8736

We have not appointed an agent for service of process in any other states.

EXHIBIT J

CURRENT SAMPLE FORM OF GENERAL RELEASE

GENERAL RELEASE

_____, a _____, whose address for the purpose of this Release is _____ (“Franchisee”), _____, a(n) _____, whose address for the purpose of this Release is _____, and _____, a(n) _____, whose address for the purpose of this Release is _____ (collectively, “Franchisee’s Principals”) hereby release and forever discharge KF Franchising, Ltd., a Texas limited partnership having its principal place of business at 23240 Westheimer Parkway, Suite A, Katy, Texas 77494 (“Company”), its affiliates, and their respective heirs, successors, members, shareholders, representatives, assigns, agents, employees, officers and directors (“Affiliates”), of and from any claims, debts, liabilities, demands, obligations, costs, expenses, actions and causes of action of every nature, character and description, known or unknown, vested or contingent, that Franchisee or any of Franchisee’s Principals now own or hold, or has at any time heretofore owned or held, or may at any time own or hold against Company and its Affiliates, arising prior to and including the date of this Release, including, without limitation, any such claims that Franchisee or any of Franchisee’s Principals may have against Company and its Affiliates (i) arising under any agreement between Franchisee and its Principals and Company and its Affiliates, except those surviving the termination of that certain Franchise Agreement dated _____ between Franchisee and Company (the “Franchise Agreement”), and any settlement agreement related to its termination, (ii) arising from the parties’ conduct during the term of the Franchise Agreement, (iii) arising during Franchisee’s operation of the franchised Kolache Factory located at _____, (iv) arising under federal, state and local laws, rules or ordinances, including, but not limited to, federal and state franchise and deceptive trade practice laws, or (v) any obligation to refund or otherwise return any part of the franchise fee that Franchisee paid to Company upon the execution of the Franchise Agreement.

IN WITNESS WHEREOF the parties have executed and delivered this General Release on this _____ day of _____, 20____.

FRANCHISEE:

[Name of Entity if Franchise is a business Entity]

By: _____

Title: _____

FRANCHISEE’S PRINCIPALS:

Print Name: _____

Print Name: _____

State Effective Dates

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

State	Effective Date
California	Pending
Hawaii	Not Applicable
Illinois	July 20, 2022
Indiana	June 29, 2022
Maryland	July 13, 2022
Michigan	Not Applicable
Minnesota	Not Applicable
New York	Pending
North Dakota	Not Applicable
Rhode Island	Not Applicable
South Dakota	Not Applicable
Virginia	Pending
Washington	Not Applicable
Wisconsin	Not Applicable

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

RECEIPT

(FRANCHISEE'S COPY – PLEASE SIGN AND KEEP FOR YOUR RECORDS)

This Disclosure Document summarizes provisions of the Franchise Agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If KF Franchising, Ltd. offers you a franchise, KF Franchising, Ltd. must provide this Disclosure Document to you at least 14 calendar days before you sign a binding agreement or make any payment to us or an affiliate in connection with the proposed franchise sale. Under Michigan law, KF Franchising, Ltd. must provide this Disclosure Document to you 10 business days before you sign any contract or make any payment relating to the franchise relationship. Under New York, Oklahoma and Rhode Island law, KF Franchising, Ltd. must provide this Disclosure Document to you at the earliest of the first personal meeting or 10 business days before you sign any contract or make any payment relating to the franchise relationship.

If KF Franchising, Ltd. 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 appropriate state agency listed in Exhibit H.

The name(s), address(es) and telephone number(s) of the franchise seller(s) is(are) John H. Banks, Dawn Nielsen, Aaron Nielsen (each at 23240 Westheimer Pkwy, Suite A, Katy, Texas 77494, (281) 829-6188) and _____

Issuance Date: June 24, 2022

The name and address of our registered agent authorized to receive service of process is shown in Exhibit I.

I have received a Franchise Disclosure Document dated June 24, 2022. This Disclosure Document contains the following:

STATE SPECIFIC APPENDIX TO DISCLOSURE DOCUMENT

EXHIBIT A	Financial Statements
EXHIBIT B	Franchise Agreement (with State Specific Amendments and exhibits)
EXHIBIT C	Development Agreement (with State Specific Amendments and exhibits)
EXHIBIT D	Loyalty and Gift Card Participation Agreement
EXHIBIT E	Table of Contents to Operations Manual
EXHIBIT F	List of Current Franchisees
EXHIBIT G	List of Franchisees Who Have Left the System
EXHIBIT H	State Administrators
EXHIBIT I	Agents for Service of Process
EXHIBIT J	Current Sample Form of General Release

PROSPECTIVE FRANCHISEE:

PROSPECTIVE FRANCHISEE:

Print Name: _____

Print Name: _____

Date: _____

Date: _____

Receipt

RECEIPT

(FRANCHISOR'S COPY – PLEASE SIGN AND RETURN TO US)

This Disclosure Document summarizes provisions of the Franchise Agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If KF Franchising, Ltd. offers you a franchise, KF Franchising, Ltd. must provide this Disclosure Document to you at least 14 calendar days before you sign a binding agreement or make any payment to us or an affiliate in connection with the proposed franchise sale. Under Michigan law, KF Franchising, Ltd. must provide this Disclosure Document to you 10 business days before you sign any contract or make any payment relating to the franchise relationship. Under New York, Oklahoma and Rhode Island law, KF Franchising, Ltd. must provide this Disclosure Document to you at the earliest of the first personal meeting or 10 business days before you sign any contract or make any payment relating to the franchise relationship.

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PROSPECTIVE FRANCHISEE:

PROSPECTIVE FRANCHISEE:

Print Name: _____

Print Name: _____

Date: _____

Date: _____

Receipt