

FRANCHISE DISCLOSURE DOCUMENT

LEE'S SANDWICHES INTERNATIONAL, INC.

A California Corporation

660 E. Gish Road

San Jose, California 95112

(800) 640-8880

www.leessandwiches.com



The franchise offered is for the establishment and operation of an independently owned and operated business, which may be either a “Baguette Factory Production Unit” or a “Production Unit” offering the full line of Lee’s Sandwiches products and producing the dough for baguettes and supplying the needs of other Lee’s Sandwiches businesses; or a “Non-Production Unit” also offering the full line of Lee’s Sandwiches products but within a strip mall or smaller, freestanding location or mall applications such as food court areas with common seating and not offering baguette production.

In addition to three types of franchised businesses, we also offer two types of franchise programs:

A single franchised business. The total investment necessary to begin operation of a Lee’s Sandwiches Baguette Factory Production Unit franchised business is \$988,000 to \$1,679,500. This includes \$95,000 to \$115,000 that must be paid to us and our affiliates. The total investment necessary to begin operation of a Lee’s Sandwiches Production Unit franchised business ranges from \$544,000 to \$1,174,000. This includes \$75,000 to \$90,000 that must be paid to us and our affiliates. The total investment necessary to begin operation of a Lee’s Sandwiches Non-Production Unit franchised business ranges from \$209,830 to \$800,870. This includes \$55,000 to \$70,000 that must be paid to us and our affiliates.

Multiple franchised businesses. The initial franchise fees described above are discounted by 20% for multiple unit developers. You are required to sign one Franchise Agreement and pay the applicable franchise fee for the first franchised business at the same time you sign the Development Agreement. You also must pay us the development fee, which ranges from \$20,000 (to develop 2 Non-Production Units) to \$184,000 (to develop 1 Baguette Factory Production Unit, 1 Production Unit and 8 Non-Production Units) or higher to develop more than 10 units. The total investment necessary to begin operation of multiple franchised business ranges from \$220,890 to \$2,007,560 (or more depending on the number and types of units to be developed).

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

You may wish to receive your Disclosure Document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Jimmy Le, 660 E. Gish Road, San Jose, California 95112, (800) 640-8880.

The terms of your contract will govern your franchise relationship. Don't rely on this 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.

Date of Issuance: April 18, 2023

How to Use This Franchise Disclosure Document

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

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit 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 estimated 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 F 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 Lee's Sandwiches 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 Lee's Sandwiches franchisee?	Item 20 or Exhibit G lists current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in the 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 franchised 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 franchisor 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 A.

Your state may also 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 the following risks be highlighted:

1. **Out-of-State Dispute Resolution.** The Franchise Agreement requires you to resolve disputes with us by arbitration, only in California. Out of state arbitration may force you to accept a less favorable settlement for disputes. It may also cost you more to arbitrate with us in California than in your own state.
2. The Franchise Agreement contains provisions that limit Franchisee's rights and may not be enforceable in California including but not limited to a time limit to raise claims against the Franchisor, limitation of damages and waiver of jury trial.
3. Any claim concerning the franchised business or the Franchise Agreement or any related agreement will be barred unless an action for a claim is commenced within 1 year from the date on which you or we knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim. Neither party will be able to remove this 1 year time period based upon information known only to them.
4. The Franchise Agreement contains provisions that the Franchisee grant to the Franchisor a security interest in the franchised business as well as waive specified rights and defenses.

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.

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.

- **A prohibition of the right of Franchisee to join an association of franchisees.**
- **A requirement that a Franchisee assent to a release, assignment, novation, waiver or estoppel which deprives a Franchisee of rights and protections provided under Michigan law. This shall not preclude a Franchisee, after entering into a Franchise Agreement, from settling any and all claims.**
- **A provision that permits a Franchisor to terminate a franchise prior to the expiration of this term except for good cause. Good cause shall include the failure of the Franchisee to comply with any lawful provision of the Franchise Agreement or the Area Development Agreement, and to cure the failure after being given written notice of the failure and a reasonable opportunity, which in no event need be more than 30 days, to cure the failure.**
- **A provision that permits a Franchisor to refuse to renew a franchise without fairly compensating the Franchisee by repurchase or other means for the fair market value at the time of expiration of the Franchisee's inventory, supplies, equipment, fixtures and furnishings. Personalized materials which have no value to the Franchisor and inventory, supplies, equipment, fixtures and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (a) the term of the franchise is less than 5 years, and (b) the Franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising or other commercial symbol in the same area subsequent to the expiration of the franchise or the Franchisee does not receive at least 6 months advance notice of Franchisor's intent not to renew the franchise.**
- **A provision that permits the Franchisor to refuse to renew a franchise on terms generally available to other Franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.**
- **A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the Franchisee from entering into an agreement, at the time of arbitration or litigation, to conduct arbitration or litigation at a location outside this state.**
- **A provision which permits a Franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. The subdivision does not prevent a Franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:**
 - **The failure of the proposed transferee to meet the Franchisor's then-current reasonable qualifications or standards.**
 - **The fact that the proposed transferee is a competitor of the Franchisor or Subfranchisor.**
 - **The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.**

- The failure of the Franchisee or proposed transferee to pay any sums owing to the Franchisor or to cure any default in the Franchise Agreement or the Area Development Agreement existing at the time of the proposed transfer.
- A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in ITEM 17(g)
- A provision which permits the Franchisor to directly or indirectly convey, assign or otherwise transfer its obligations to fulfill contractual obligations to the Franchisee unless a provision has been made for providing the required contractual services.

2. Michigan law provides that a franchisor whose most recent statements are unaudited and which show a net worth of less than \$100,000 shall, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee or subfranchisor until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow. In the event that an escrow is so established, the escrow agent shall be a financial institution authorized to do business in the State of Michigan. The escrow agent may release to the franchisor those amounts of the escrowed funds applicable to a specific franchisee or subfranchisor upon presentation of an affidavit executed by the franchisee and an affidavit executed by the franchisor stating that the franchisor has fulfilled its obligation to provide real estate, improvements, equipment, inventory, training, or other items. This portion of the Michigan law does not prohibit a partial release of escrowed funds upon receipt of affidavits of partial fulfillment of the franchisor's obligation.

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

Any questions regarding this notice should be directed to:

State of Michigan
 Consumer Protection Division
 Attention: Franchise Bureau
 525 West Ottawa Street
 G. Mennen Williams Building, 1st floor
 Lansing, MI 48933
 (517) 335-7567

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE</u>
1. THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES	2
2. BUSINESS EXPERIENCE	4
3. LITIGATION	5
4. BANKRUPTCY	5
5. INITIAL FEES	6
6. OTHER FEES	7
7. ESTIMATED INITIAL INVESTMENT	11
8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES	18
9. FRANCHISEE'S OBLIGATIONS	20
10. FINANCING	22
11. FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING	22
12. TERRITORY	32
13. TRADEMARKS	35
14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION	37
15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS	38
16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL	39
17. RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION	39
18. PUBLIC FIGURES	49
19. FINANCIAL PERFORMANCE REPRESENTATIONS	49
20. OUTLETS AND FRANCHISEE INFORMATION	50
21. FINANCIAL STATEMENTS	53
22. CONTRACTS	53
23. RECEIPTS	54

EXHIBITS

- A. LIST OF STATE ADMINISTRATORS
- B. LIST OF STATE AGENTS FOR SERVICE OF PROCESS
- C. FRANCHISE AGREEMENT
 - 1. GENERAL RELEASE (SAMPLE)
 - 2. NONDISCLOSURE AND NON-COMPETITION AGREEMENT
 - 3. UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATIONS
 - 4. HOLDERS OF LEGAL OR BENEFICIAL INTEREST IN FRANCHISEE: OFFICERS,
DIRECTORS
 - 5. COLLATERAL ASSIGNMENT OF LEASE
 - 6. MULTI-STATE ADDENDA TO THE FRANCHISE AGREEMENT
- D. TABLE OF CONTENTS OF CONFIDENTIAL OPERATIONS MANUAL
- E. AREA DEVELOPMENT AGREEMENT
 - A. DEVELOPMENT SCHEDULE
 - B. UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATIONS
 - C. HOLDERS OF LEGAL OR BENEFICIAL INTEREST IN DEVELOPER; OFFICERS,
DIRECTORS
 - D. MULTI-STATE ADDENDA TO THE AREA DEVELOPMENT AGREEMENT

- F. FINANCIAL STATEMENTS
- G. LISTS OF CURRENT, FORMER FRANCHISEES AND AFFILIATE OWNED LOCATIONS AS OF 12/31/22
- H. FRANCHISEE DISCLOSURE QUESTIONNAIRE
- I. MULTI-STATE ADDENDA TO THE DISCLOSURE DOCUMENT
- J. RENEWAL ADDENDUM TO THE FRANCHISE AGREEMENT
- K. RECEIPT OF FRANCHISE RELATED DOCUMENTS
- L. STATE EFFECTIVE DATES

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

To simplify the language in this Disclosure Document, the words “we,” “our,” “us” and “Lee’s Sandwiches” refer to Lee’s Sandwiches International, Inc., the franchisor of this business. “You” and “your” refer to the person or entity who buys the franchise, whether a corporation, limited liability company or other business entity. If you are a corporation, limited liability company or other business entity, certain provisions of this Disclosure Document also apply to your owners and will be noted.

The Franchisor

We were incorporated in California on June 11, 2002. Our principal business address is 660 E. Gish Road, San Jose, California 95112. We do business under our corporate name and the name Lee’s Sandwiches. We have offered franchises since August 19, 2004.

We franchise the right to operate either a Lee’s Sandwiches Baguette Factory Production Unit, a Lee’s Sandwiches Production Unit, or a Lee’s Sandwiches Non-Production Unit. A Lee’s Sandwiches Baguette Factory Production Unit offers the full line of Lee’s Sandwiches products and produces the dough for baguettes and supplying the needs of other Lee’s Sandwiches businesses. A Lee’s Sandwiches Baguette Factory Production Unit is generally 4,000 to 8,000 square feet in size and is located near residential areas close to shopping, schools and employers. Lee’s Sandwiches Production Unit offers the full line of Lee’s Sandwiches products and produces the dough for baguettes and supplying the needs of other Lee’s Sandwiches businesses. A Production Unit is generally 2,500 to 4,000 square feet in size and is located near residential areas close to shopping, schools and employers. A Non-Production Unit also offers the full line of Lee’s Sandwiches products, ranges in size of approximately 500 to 3,000 square feet and is typically located in a strip mall, smaller freestanding location or a mall application including food court areas with common seating with all of the essential elements of the Production Unit, except for the dough production. The franchise or franchised business does business under the trade name, Lee’s Sandwiches®, and also uses our other related service marks, trademarks or logos (our “Marks”). The franchises operate using our standards, methods, procedures and specifications, called our “System.”

We do not operate a business of the type being franchised. We are not involved in any other business activities. We do not offer and have not previously offered franchises in any other line of business.

There are currently 12 Lee’s Sandwiches businesses operating in Northern California, and periodically there may be additional units that may be opened in a specified territory. These businesses are not affiliated with us or our affiliates. The relationship is a familial one, where certain members of the founder’s immediate family were given exclusive rights to Northern California. The first restaurant was opened in Northern California in 1983. While these 12 Lee’s Sandwiches are not affiliates of ours, their business addresses can be found on the Lee’s Sandwiches website. Additionally, there is no formal written agreement between us and the operators of these 12 Lee’s Sandwiches businesses; the arrangements were made via oral agreement. We and our affiliates have an understanding with each of the non-affiliated owners of the businesses in Northern California in which they agreed not to expand their business beyond the Northern California market and we and our affiliates agreed not to establish or license

others to establish Lee*s Sandwiches businesses in the Northern California market. As these 12 Lee*s Sandwiches businesses are not part of our franchise System, they are not obligated to conform to our specifications and requirements of operations of franchised businesses.

The terms of the Franchise Agreement may not necessarily be the same as the terms of the agreement that governs another franchisee's Lee*s Sandwiches business.

We also offer development rights to develop and operate multiple franchises. The number of franchises which can be developed is predetermined and the franchises must be located in a "Development Territory." Each location must be operating within a set time frame.

Our Parents, Predecessors and Affiliates

In 2016, we became a wholly-owned subsidiary of our parent company, LCJJ Holdings, Inc. ("LCJJ"). LCJJ is a California corporation formed on January 13, 2015. It is located at 660 E. Gish Road, San Jose, California 95112. LCJJ has never offered franchises in this or any other line of business. We have 2 affiliates: Lee Bros. Foodservices, Inc. and LQNN, Inc. We have no other affiliates. No affiliate has previously offered franchises in this or any other line of business.

Our affiliate, Lee Bros. Foodservices, Inc., is a California corporation incorporated on January 23, 1985, and is located at 660 E. Gish Road, San Jose, California 95112. Lee Bros. Foodservices, Inc. is an approved supplier of foodservices products for you, our other franchisees and other buyers.

Our affiliate, LQNN, Inc., is a California corporation incorporated on July 31, 2000, and is located at 9251 Bolsa Avenue, Westminster, California 92683. Since August 2001, LQNN, Inc. has operated a business which is similar in nature to the franchise being offered. As of 12/31/22, LQNN, Inc. operates 5 Lee*s Sandwiches businesses in Alhambra, Fullerton, Garden Grove, Rosemead and Westminster, California, which are similar to the Lee*s Sandwiches Production, and Non-Production Unit businesses being franchised. LQNN, Inc. is an approved supplier of foodservices products for you, our other franchisees and other buyers.

General Description of the Market and Competition

You will target your services to the general public. You may have to compete with other businesses including franchised operations, national chains, and independently owned companies offering similar products or services to customers. You may also encounter competition from other Lee*s Sandwiches businesses.

Regulations Specific to the Industry

In addition to laws and regulations that apply to businesses generally, your business will be subject to federal, state, and local regulations and guidelines governing the food service industry. The Food and Drug Administration, the United States Department of Agriculture and other governmental agencies established rules affecting the restaurant business. You must investigate and comply with all applicable laws and regulations, federal, state, county and local health and consumer protection laws and regulations

concerning food preparation, handling and storage, “Truth in Menu” laws concerning menu item names and product labeling, nutritional claims and access to your restaurant by persons with disabilities (under the federal Americans with Disabilities Act and applicable state laws). You must also be aware of federal, state and local labor and employment laws and regulations, including minimum age, and minimum wage and overtime laws and laws prohibiting harassment, discrimination and retaliation. Local zoning rules must be investigated because they may limit where you can locate a restaurant and may affect design features, including the facade and signage. You must be aware of federal, state and local environmental laws, which may affect disposal of waste materials and the packaging you may use. The details of state, county, and local regulations and requirements vary from place to place. You alone are responsible for complying with all applicable laws and regulations despite any advice or information that we may give you.

Agents for Service of Process

Our agents for service of process are listed on Exhibit B to this Disclosure Document.

ITEM 2. BUSINESS EXPERIENCE

CEO: Chieu Van Le

Mr. Le is an interim director and has served as CEO since our incorporation in June 2002. In addition, since 2001, Mr. Le has served as CEO for our Affiliate, LQNN, Inc. located in Westminster, California; since February 1985, Mr. Le has served as President for our Affiliate, Lee Bros. Foodservices, Inc., located in San Jose, California; since August 2004, Mr. Le has served as President for one of our franchisees, Golden Houston Investments, Inc., located in Houston, Texas; and since January 2015, he has served as CEO of our parent, LCJJ Holdings, Inc.

Secretary: Yen Ngoc Quach

Ms. Quach is an interim director and has served as Secretary since July 2002. In addition, since August 2001, Ms. Quach has served as Secretary for our Affiliate, LQNN, Inc. located in Westminster, California; since February 1985, Ms. Quach has served as Secretary for our Affiliate, Lee Bros. Foodservices, Inc., located in San Jose, California; and since August 2004, Ms. Quach has served as Secretary for one of our franchisees, Golden Houston Investments, Inc., located in Houston, Texas.

Vice President/COO: Tom Thanh Quach

Mr. Quach serves as Vice President and Chief Operating Officer and has done so since January 2005. In addition, since August 2001 Mr. Quach has served as Chief Operating Officer of our Affiliate LQNN, Inc. located in Westminster, California.

Vice President, Sales: Jimmy M. Le

Mr. Le is our Vice President of Sales and has been since July 2002. He has also served as Vice President of our Affiliate, Lee Bros. Foodservices, Inc., since May 2000. He also co-owns a non-franchised store in Sunnyvale, California.

ITEM 3. **LITIGATION**

Lee's Sandwiches Int'l, Inc. and LQNN, Inc. v. David K. Tran, Goldland Capital, Inc., Tyler Nguyen, Alexander Pham, Huy Nguyen, and Huong Nguyen, No. 30-2018-00994836-CU-BC-CJC (Orange County (CA) Super. Ct.), filed May 23, 2018.

In the matter of the Arbitration between Lee's Sandwiches, Int'l and LQNN, Inc. v. Goldland Capital, Inc. and Tyler Nguyen, No. 18-6860-FJB (ADR Services, Inc., Santa Clara County, CA).

We and our Affiliate commenced an action in connection with a former Nevada franchisee's failure to pay past due royalties and amounts due for goods purchased by the franchisee. After we consented to the franchisee's request to sell his three franchised locations in exchange for the franchisee's agreement to pay us from the sale proceeds, the franchisee and the escrow agent refused to release the funds. We first filed a court action seeking injunctive and declaratory relief against the escrow agent, the former franchisee, its shareholders and its guarantor. We sought an order compelling the escrow agent to turn over the funds obtained from the buyer of the franchises to us. Once the escrow agent deposited the funds with the court, the parties agreed to arbitrate the substantive claims. In total, the former franchisee owes over \$500,000 to us and our Affiliate. We also seek attorneys' fees and costs. In February 2019, the former franchisee filed a cross-complaint alleging that we violated its exclusive territory by selling certain products in grocery stores and alleging claims based on certain actions by the United States Department of Agriculture relating to Lee's Sandwiches products. On our motion to dismiss, the arbitrator ruled that part of the claims were barred by the general releases but reserved his ruling on the merits of other claims for the final arbitration hearing.

Before the final hearing in June 2021, the arbitrator granted our motion for sanctions for the franchisee's failure to comply with discovery orders. The franchisee failed to produce evidence supporting its claims. As a result, the arbitrator precluded the franchisee from presenting evidence in support of its claims. The final arbitration hearing took place in June 2021. The arbitrator found in our favor and awarded us and our affiliate \$703,662.18 in damages, including prejudgment interest, and \$425,945.30 in attorneys' fees and costs.

The franchisee filed a motion to correct the arbitration award. The Superior Court of California, Orange County denied the franchisee's motion and confirmed the award of the arbitrator, and subsequently issued a judgment in our favor.

The franchisee filed an appeal of the Superior Court's confirmation of the arbitration award. The appeal is currently pending and the franchisee's deadline to file its opening brief is March 27, 2023.

The franchisee also filed for bankruptcy under Chapter 7 in the U.S. Bankruptcy Court for the District of Nevada in June 2022, in the case entitled *In Re: Goldland Capital Inc.*, 2:22-BK-12069. The bankruptcy proceedings were completed in December 2022.

Other than these actions, 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**

Franchise Fee

You pay us a \$75,000 lump sum franchise fee for a Baguette Factory Production Unit, \$60,000 for a Production Unit, and \$50,000 for a Non-Production Unit when you initially sign the Franchise Agreement. These fees are uniform.

We will refund 50% of the franchise fee you paid if we terminate the franchise for failure to perform your pre-opening obligations under the Franchise Agreement, including failure to select a site, failure to develop, and failure to complete training. We do not give refunds under other circumstances.

Development Agreement

For Area Developers, we reduce the franchise fee, as stated above, to \$60,000 for a Baguette Factory Production Unit; \$48,000 for a Production Unit, and \$40,000 for a Non-Production Unit. The number of franchised businesses you must open will be determined before you sign the Development Agreement.

You are required to sign one Franchise Agreement and pay the franchise fee for the first franchised business at the same time you sign the Development Agreement. You also must pay a development fee when you sign the Development Agreement equal to 50% of the sum of the individual discounted franchise fees for each of the franchised businesses you agree to develop after the first one. The development fee ranges from \$20,000 (to develop 2 Non-Production Units) to \$184,000 (to develop 1 Baguette Factory Production Unit, 1 Production Unit and 8 Non-Production Units) or higher to develop more than 10 such units or other combination of units. If (for example) you agree to develop 2 Non-Production Units, you will pay us an initial franchise fee of \$40,000 for the first Non-Production Unit franchise, plus the development fee of \$20,000 (50% of the franchise fee for the second Non-Production Unit you agree to develop), for a total payment of \$60,000 when you sign the Development Agreement and the first Franchise Agreement. If (for example), you agree to develop 1 Baguette Factory Production Unit, 1 Production Unit and 8 Non-Production Units, you will pay us an initial franchise fee of \$60,000 for the Baguette Factory Production Unit franchise, plus the development fee of \$184,000 (50% of franchise fee for the Production Unit and the other 8 Non-Production Units), for a total payment of \$244,000 when you sign the Development Agreement and the first Franchise Agreement.

You will sign a Franchise Agreement before opening each subsequent franchised business that you are required to open according to the development schedule under your Development Agreement. When you sign each Franchise Agreement you will pay us the applicable initial franchise fee for each such Unit, less a credit equal to 50% of the applicable initial franchise fee due for that Unit. Using the examples illustrated above, you would pay us \$20,000 each time you signed a Franchise Agreement for Non-Production Units 1 through 8 and \$24,000 when you signed the Franchise Agreement for the Production Unit (high end of range).

The development fee is calculated uniformly, but the amount of the actual fee will vary based on the number and types of Lee's Sandwiches businesses you agree to develop.

The development fee is non-refundable under any circumstance.

Opening Product Inventory

Certain bakery flour, dough, meat products, desserts and other items as specified in the Confidential Operations Manual are proprietary or especially suited for use in the franchised business and referred to as “Lee’s Sandwiches Products.” Currently, these products must be purchased from an affiliate of ours or our designated distributor. We estimate that the opening product purchases from our affiliates will range as follows: \$20,000 to \$40,000 for Baguette Factory Production Units; \$15,000 to \$30,000 for other Production Units; and \$5,000 to \$20,000 for Non-Production Units. You pay for opening product inventory by the due date on the invoice. Payments are non-refundable, except for defective, spoiled and unopened products returned according to our then current return policy.

ITEM 6. OTHER FEES

Type of Fee	Amount	Due Date	Remarks
Royalty Fee	6.9% of gross sales	Payable weekly on Tuesdays	You must pay your royalty fee directly to us. See definition of gross sales. ¹
Marketing Fund Contribution	Currently, none; if fund established, 2% of gross sales	Payable weekly on Tuesdays	We may establish a marketing fund. You pay your marketing fund contribution to us. We will give you 30 days’ notice before increasing required contributions.
Audit Expenses ²	All costs and expenses associated with audit	Upon demand	Audit costs payable only if the audit shows you have not spent 2% of your monthly gross sales on local advertising or if you underreported amounts you owe us by 3% or more.
Late Fees ³	1.5% per month or the highest rate allowed by the state where you are located, whichever is less	Upon demand	Applies to all overdue fees and other payments you owe us. Also applies to any understatement in amounts due revealed by an audit.
Approval of Products or Suppliers ⁴	\$500 - \$1,000	Time of evaluation	Applies to our evaluation of new suppliers you wish to purchase from or products you wish to purchase that are not provided by us.

Type of Fee	Amount	Due Date	Remarks
Ongoing Purchases of Lee*s Sandwiches Products	Will vary under the circumstances	As invoiced	Our affiliate or our designated distributor will provide you with Lee*s Sandwiches products for which you will pay as invoiced.
Insurance Policies	\$5,000 - \$10,000	Upon demand	Amount of unpaid premiums plus our reasonable expenses in obtaining the policies. Payable to us only if you fail to maintain required insurance coverage and we elect to obtain coverage for you.
Transfer Fee	\$15,000 – Baguette Factory Production Unit and Production Unit, \$10,000- Non-Production Unit \$5,000 under the Development Agreement	At the time of transfer	Payable to us at the time of transfer. Does not apply to an assignment under Section 19.3 of the Franchise Agreement.
Relocation Assistance	Costs of providing relocation assistance	Time of assistance	If you need our assistance to relocate, you must reimburse our costs to assist you.
Customer Service ⁵	All costs incurred in assisting your customers	Upon demand	You must reimburse us if we determine it is necessary for us to provide service directly to your customers.
Substitute or New Owner or Manager Training/ Additional Training ⁶	Currently, \$500 per day, plus your expenses in attending	Time of training	We provide an initial training program before you begin operations and ongoing training programs during the term of the franchise. If you have to repeat our training programs or we are required to spend more training time with you than is provided in the scheduled timeframe, we may charge you a fee and require you to reimburse us for any additional travel, hotel and other expenses we incur because of the extended training period.
Ongoing Training	We do not charge a fee for mandatory additional training programs, but may for optional programs.		You are responsible for travel, hotel, employees' salaries and any other expenses that are incurred by attendees at any of our training programs.

Type of Fee	Amount	Due Date	Remarks
Additional Operations Assistance	Currently, \$500 per day plus our expenses	Time of assistance	We provide assistance around the beginning of operations and during the term of the franchise. If you request additional assistance beyond what we typically provide, you may be charged a fee, plus our expenses if we need to travel to accommodate your request.
Cost of Enforcement	All actual costs including reasonable attorneys' fees	Upon demand	You must reimburse us for all actual costs in enforcing obligations if we prevail.
Indemnification and Defense	All costs including reasonable attorneys' fees	Upon demand	You must defend and indemnify us against claims and lawsuits at your cost and hold us harmless against lawsuits arising from your operation of the franchised business. We also provide indemnification to you for any claims or lawsuits arising from your authorized use of the Marks.

We may require that all fees payable to us be paid through an electronic depository transfer account.

All of the fees noted above are uniform. No other fees or payments are to be paid to us, nor do we impose or collect any other fees or payments for any other third party. All fees are non-refundable.

NOTES

¹ "Gross sales" means the aggregate of all revenue from the sale of products and services from all sources in connection with the Franchised Business and/or all revenue from any Competitive Business (as defined in the Franchise Agreement), whether paid by check, cash, credit or otherwise including, without limitation, all proceeds from any business interruption insurance, but excluding (a) all refunds made in good faith, (b) any sales and equivalent taxes that are collected for or on behalf of any governmental taxing authority and paid thereto, (c) the value of any allowance issued or granted to any customer thereof that is credited in full or partial satisfaction of the price of any products and services offered in connection with such business, and (d) any rebate received by Franchisee from a manufacturer or supplier in accordance with the terms of this Agreement.

² We assume costs vary depending on factors, including prevailing auditor's rates in your area, the business activity being audited and how well you keep your books and records. You pay our actual costs only. You should be able to investigate these costs by contacting auditors in your area.

³ Late fees begin 5 days after the date payment was due, but not received, or date of underpayment. The maximum interest rate in California is 10% annually.

⁴ Costs vary depending on the availability of product samples for testing, shipping costs or travel costs to review the product, the type of product under review, whether the product or supplier has been rated and other similar factors. You pay our actual costs only.

⁵ Costs vary depending on factors, including nature of the complaint, expertise needed and the time involved. You pay our actual costs only.

⁶ We provide training programs to an individual you select to have primary responsibility for the operation and management of the franchised business (the “designated owner”). Your designated owner’s attendance is required. Other individual franchisees or owners of a franchisee who is a business entity may also attend training, as may one of your managerial employees. It is our policy to not charge fees for these programs, but we reserve the right to assess our then current training fee associated with a new or substitute owner’s or manager’s initial training program.

ITEM 7. ESTIMATED INITIAL INVESTMENT**YOUR ESTIMATED INITIAL INVESTMENT – BAGUETTE FACTORY PRODUCTION UNIT**

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Franchise Fee ¹	\$ 75,000	Cashier's Check	At Signing of Franchise Agreement	Us
Real Estate/Rent ²	7,000-36,000	As Arranged	Before Beginning Operations	Lessor
Utility Deposits ³	1,000-5,000	As Arranged	Before Beginning Operations	Utilities
Leasehold Improvements ⁴	500,000-800,000	As Arranged	Before Beginning Operations	Contractor Suppliers
Furniture, Fixtures & Equipment ⁵	200,000-400,000	As Arranged	Before Beginning Operations	Approved Suppliers
Initial Inventory ⁶	20,000-40,000	As Arranged	Before Beginning Operations	Affiliate, Approved Suppliers, Suppliers
Insurance ⁷	5,000-10,000	As Arranged	Before Beginning Operations	Insurance Companies
Signage ⁸	15,000-30,000	As Arranged	Before Beginning Operations	Approved Suppliers
Vehicles ⁹	30,000-60,000	As Arranged	Before Beginning Operations	Approved Suppliers
Office Equipment & Supplies ¹⁰	3,000-6,000	As Arranged	Before Beginning Operations	Approved Suppliers
POS Support ¹¹	2,500	As arranged	Before Beginning Operations	Approved Supplier
Grand Opening ¹²	20,000-30,000	As Arranged	First 3 Months Of Operation	Advertising Suppliers
Training ¹³	15,000-30,000	As Arranged	During Training	Airlines, Hotels & Restaurants
Licenses & Permits ¹⁴	500-1,000	As Arranged	Before Beginning Operations	Licensing Authorities
Legal & Accounting ¹⁵	2,000-4,000	As Arranged	Before Beginning Operations	Attorney, Accountant
Office Network & Registers ¹⁶	10,000-25,000	As Arranged	Before Beginning Operations	Approved Suppliers
Store Surveillance System ¹⁷	2,000-5,000	As Arranged	Before Beginning Operations	Approved Suppliers
Additional Funds ¹⁸ (3 months)	80,000-120,000	As Arranged	As Necessary	Employees, Utilities, & Suppliers
TOTAL ¹⁹	\$ 988,000- \$ 1,679,500			

YOUR ESTIMATED INITIAL INVESTMENT – PRODUCTION UNIT

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Franchise Fee ¹	\$ 60,000	Cashier's Check	At Signing of Franchise Agreement	Us
Real Estate/Rent ²	2,500-25,000	As Arranged	Before Beginning Operations	Lessor
Utility Deposits ³	1,000-5,000	As Arranged	Before Beginning Operations	Utilities
Leasehold Improvements ⁴	250,000-600,000	As Arranged	Before Beginning Operations	Contractor Suppliers
Furniture, Fixtures & Equipment ⁵	100,000-250,000	As Arranged	Before Beginning Operations	Approved Suppliers
Initial Inventory ⁶	15,000-30,000	As Arranged	Before Beginning Operations	Affiliate, Approved Suppliers, Suppliers
Insurance ⁷	3,000-8,000	As Arranged	Before Beginning Operations	Insurance Companies
Signage ⁸	8,000-15,000	As Arranged	Before Beginning Operations	Approved Suppliers
Office Equipment & Supplies ¹⁰	2,500-3,500	As Arranged	Before Beginning Operations	Approved Suppliers
POS Support ¹¹	2,500	As arranged	Before Beginning Operations	Approved Supplier
Grand Opening ¹²	10,000-20,000	As Arranged	First 3 Months Of Operation	Advertising Suppliers
Training ¹³	15,000-30,000	As Arranged	During Training	Airlines, Hotels & Restaurants
Licenses & Permits ¹⁴	500-1,000	As Arranged	Before Beginning Operations	Licensing Authorities
Legal & Accounting ¹⁵	2,000-4,000	As Arranged	Before Beginning Operations	Attorney, Accountant
Office Network & Registers ¹⁶	10,000-25,000	As Arranged	Before Beginning Operations	Approved Suppliers
Store Surveillance System ¹⁷	2,000-5,000	As Arranged	Before Beginning Operations	Approved Suppliers
Additional Funds ¹⁸ (3 months)	60,000-90,000	As Arranged	As Necessary	Employees, Utilities, & Suppliers
TOTAL¹⁹	\$ 544,000- \$ 1,174,000			

YOUR ESTIMATED INITIAL INVESTMENT – NON-PRODUCTION UNIT

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Franchise Fee ¹	\$ 50,000	Cashier's Check	At Signing of Franchise Agreement	Us
Real Estate/Rent ²	2,000-15,000	As Arranged	Before Beginning Operations	Lessor
Utility Deposits ³	500-5,000	As Arranged	Before Beginning Operations	Utilities
Leasehold Improvements ⁴	50,000-400,000	As Arranged	Before Beginning Operations	Contractor Suppliers
Furniture, Fixtures & Equipment ⁵	50,000-150,000	As Arranged	Before Beginning Operations	Approved Suppliers
Initial Inventory ⁶	5,000-20,000	As Arranged	Before Beginning Operations	Affiliate, Approved Suppliers, Suppliers
Insurance ⁷	2,000-5,000	As Arranged	Before Beginning Operations	Insurance Companies
Signage ⁸	5,000-15,000	As Arranged	Before Beginning Operations	Approved Suppliers
Office Equipment & Supplies ¹⁰	2,500-3,500	As Arranged	Before Beginning Operations	Approved Suppliers
POS Support ¹¹	2,500	As Arranged	Before Beginning Operations	Approved Supplier
Grand Opening ¹²	1,000-20,000	As Arranged	First 3 Months Of Operation	Advertising Suppliers
Training ¹³	5,000-20,000	As Arranged	During Training	Airlines, Hotels & Restaurants
Licenses & Permits ¹⁴	330-870	As Arranged	Before Beginning Operations	Licensing Authorities
Legal & Accounting ¹⁵	2,000-4,000	As Arranged	Before Beginning Operations	Attorney, Accountant
Office Network & Registers ¹⁶	10,000-25,000	As Arranged	Before Beginning Operations	Approved Suppliers
Store Surveillance System ¹⁷	2,000-5,000	As Arranged	Before Beginning Operations	Approved Suppliers
Additional Funds ¹⁸ (3 months)	20,000-60,000	As Arranged	As Necessary	Employees, Utilities, & Suppliers
TOTAL¹⁹	\$ 209,830- \$ 800,870			

NOTES

¹ **Franchise Fee.** The franchise fee and its refund policy are described in greater detail in ITEM 5. We do not finance any fee.

² Real Estate/Rent. You must provide a suitable premises from which to operate the franchised business. The facility will require approximately 4,000 to 8,000 square feet of space for a Baguette Factory Production Unit, 2,500 to 4,000 square feet of space for a Production Unit, and 500 to 3,000 square feet of space for a Non-Production Unit. It is difficult to estimate lease acquisition costs because of the wide variation in these costs between various locations. Lease costs will vary based upon square footage, cost per square foot and required maintenance costs. The low estimate is based on an assumption that you will have to pay a security deposit equal to one month's rent to lease the facility and is based on leasing a facility of 7,000 square feet for a Baguette Factory Production Unit, 3,000 square feet for a Production Unit, and 500 square feet for a Non-Production Unit. The high estimate is based on an assumption that you will have to pay a security deposit equal to 2 month's rent to lease the facility and is based on leasing a facility of 10,000 square feet for a Baguette Factory Production Unit, Production Unit, 5,000 square feet for a Production Unit, and 3,000 square feet for a Non-Production Unit at a higher cost per square foot. Some lessors may refund the security deposit if you cancel the lease before you occupy the premises. The estimated range of costs in this category only includes your costs to enter into a lease agreement for the facility. Estimated rental costs for 3 months are included with the category, "Additional Funds," (see Note 18 below).

³ Utility Deposits. If you are a new customer of local utilities, you will generally have to pay deposits to obtain services including electric, telephone, gas and water and others. The deposit will vary depending on the policy of the local utility. We do not know if the deposits will be refundable. You should contact your local utilities for more information.

⁴ Leasehold Improvements. To adapt a newly-acquired facility into a franchised business, the facility must be renovated. The cost of leasehold improvements will vary depending on factors including the size, condition and location of the facility, local wage rates and material costs. The amounts you pay for leasehold improvements are typically non-refundable.

⁵ Furniture, Fixtures & Equipment. You must purchase and/or lease and install fixtures, furniture, equipment and décor to outfit and equip the franchised business according to our specifications, such as tables, counters, booths or lighting necessary to operate your franchised business. The cost of the furniture, fixtures and equipment will vary according to local market conditions, the size of the premises, suppliers and other related factors. We do not know if the amounts you pay for furniture, fixtures or equipment are refundable. You should inquire about the return and refund policy of the suppliers at or before the time of purchasing.

⁶ Initial Inventory. You must purchase an initial inventory of food and beverage products, foodservice products, and other operating supplies. Costs vary based on the size and location of the franchised business, time of season, suppliers and other related factors. We do not know if the amounts you pay for inventory items to third party companies are refundable. Factors determining whether other inventory items are refundable typically include the condition of the items at time of return, level of use and length of time of possession. You should inquire about the return and refund policy of the suppliers at or before the time of purchasing. The refund policy for product purchases from our Affiliates is described in Item 5.

⁷ Insurance. You must purchase the following types and amounts of insurance and name us as an additional insured or loss payee and contain a waiver of all subrogation rights against us, and our successors and assigns:

- (1) “all risk” property insurance coverage for assets of the franchised business;
- (2) workers’ compensation insurance and employer liability coverage with a minimum limit of \$1,000,000 (or higher if your state law requires);
- (3) commercial general liability insurance with a minimum liability coverage of \$1,000,000 per occurrence and \$2,000,000 in the aggregate (or higher if your state law requires);
- (4) automobile liability insurance, including owned, hired, and non-owned vehicle coverage of at least \$1,000,000 (or higher if your state law requires);
- (5) insurance coverage for contractual indemnity; and
- (6) employment practices liability coverage with a minimum limit of \$1,000,000.

We do not represent that these required types and limits are sufficient for your business needs and advise you to discuss your business needs with a qualified insurance broker. We also recommend (but do not currently require) that you purchase business interruption insurance.

Factors that may affect your cost of insurance include location of the premises, value of the leasehold improvements, amount of inventory and other factors. The amounts you pay for insurance are typically non-refundable. You should inquire about the cancellation and refund policy of the insurance carrier or agent at or before the time of purchase.

⁸ Signage. This range includes the cost of all signage used in the franchised business. The costs will vary based upon the size of the premises, whether you operate a Baguette Factory Production Unit, a Production Unit, or a Non-Production Unit, location of the premises and local wage rates. The amounts you pay for signage are typically non-refundable.

⁹ Vehicles. You may purchase or lease a delivery truck with a refrigerated system. This is optional, not mandatory.

¹⁰ Office Equipment and Supplies. You must purchase general office supplies including stationery, business cards and typical office equipment. Factors that may affect your cost of office equipment and supplies include local market conditions, the size of the premises, suppliers and other factors. We do not know if the amounts you pay for office equipment and supplies are refundable. You should inquire about the return and refund policy of the supplier at or before the time of purchase.

¹¹ POS Support. You must pay our Approved Vendor of POS system services an annual fee for POS phone support, repairs and online ordering. Currently this fee is \$2,500 per year but may change.

¹² Grand Opening. You must spend a minimum amount we specify in grand opening advertising during the first 3 months of operation. The minimum amount for a Baguette Factory Production Unit is \$20,000, for a Production Unit \$10,000 and \$1,000 for a Non-Production Unit. We determine the minimum based on our assessment of your advertising costs in your area and the time of year that you are

opening. You may choose to spend more than the minimum amount we specify. If you choose to spend more, factors that may affect the actual amount you spend include the type of media used, the size of the area you advertise to, local media cost, location of the franchised business, time of year and customer demographics in the surrounding area. The amounts you spend for grand opening advertising are typically non-refundable. You should inquire about the return and refund policy of the suppliers at or before the time of purchasing.

¹³Training. The fee for initial training for up to 3 people (including the Designated Owner) is included in the Franchise Fee. You are responsible for transportation and expenses for meals and lodging while attending training. The total cost will vary depending on the number of people attending, how far you travel and the type of accommodations you choose. These expenses are typically non-refundable. You should inquire about the cancellation and refund policy of the airline, rental car or other transportation company and hotel at or before the time you make your reservations.

¹⁴Licenses & Permits. State and local government agencies typically charge fees for occupancy permits, pre-construction and operating licenses and permits. Your actual costs may vary from the estimates based on the requirements of state and local government agencies. These fees are typically non-refundable. You should inquire about the cancellation and refund policy of the agencies at or before the time of payment.

¹⁵Legal & Accounting. You will need to employ an attorney, an accountant and other consultants to assist you in establishing your franchised business. These fees may vary from location to location depending upon the prevailing rate of attorneys', accountants' and consultants' fees. These fees are typically non-refundable. You should inquire about the cancellation and refund policy of the attorney, accountant or consultant at or before the time of hiring.

¹⁶Office Network & Registers. You must purchase an electronic office network and registers to manage and control your inventory in addition to tracking daily sales receipts from the franchised business. The above range also includes the POS system monthly and per transaction fees. These costs vary based on how many stations are purchased and the features selected. The amounts you pay for office network and registers are typically non-refundable, or if refundable, you may be subject to a "re-stocking" fee. You should inquire about the return and refund policy of the supplier at or before the time of purchasing.

¹⁷Store Surveillance System. You must purchase a store surveillance system according to our specifications. The amounts you pay for the store surveillance system are typically non-refundable, or if refundable, you may be subject to a "re-stocking" fee. You should inquire about the return and refund policy of the suppliers at or before the time of purchasing.

¹⁸Additional Funds. We recommend that you have a minimum amount of money available to cover operating expenses, including utilities, local advertising and employees' salaries for the first 3 months that the franchised business is open. Additional working capital may be required if sales are low or operating costs are high. These expenses are typically non-refundable.

¹⁹ Total. In compiling this chart, we relied on our and our Affiliates' industry knowledge and experience. The amounts shown are estimates only and may vary for many reasons, including the size and condition of your facility, the capabilities of your management team, where you locate your franchised business and your business experience and acumen. You should review these estimates carefully with an accountant or other business advisor before making any decision to buy a franchise. These figures are estimates only and you may have additional expenses in starting the franchised business.

We do not offer direct or indirect financing to you for any items.

YOUR ESTIMATED INITIAL INVESTMENT

Development Agreement

The following chart provides an estimate of your initial investment to open your first Lee*s Sandwiches Baguette Factory Production Unit if you sign a Development Agreement for the development of 5 franchised businesses. There is no maximum fee; the total amounts are directly related to the number and type of franchised businesses that we agree to and you plan to develop as agreed to in your Development Agreement.

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Development Fee*	\$ 20,000-184,000	Cashier's Check	Upon Signing Development Agreement	Us
Franchise Fee*	40,000-60,000	Cashier's Check	Upon Signing Development Agreement	Us
Other Expenditures** For 1 st Franchised Business	160,890-1,763,560	As Disclosed in Preceding Tables	As Disclosed in Preceding Tables	As Disclosed in Preceding Tables
TOTAL ¹⁷	\$ 220,890-\$ 2,007,560			

*The low figure is based on the assumption that you enter into a Development Agreement requiring you to open 2 Non-Production Unit franchised businesses, the initial franchise fee for your first franchised business (\$40,000 for a Lee*s Sandwiches Non-Production Unit) is due upon signing. You will also pay a development fee for the additional Non-Production Unit franchised business to be developed of \$20,000. The franchise fee for the additional Non-Production Unit franchised business will be \$40,000. In the case of each franchised business after the first one, we will credit against the franchise fee the amount of the development fee paid with respect to that franchised business. The franchise and development fees are described in ITEM 5.

The high figure is based on the assumption that you enter into a Development Agreement requiring you to open 1 Baguette Factory Production Unit franchised business, 1 Production Unit and 8 Non-Production Units. The initial franchise fee for your first franchised business (\$60,000) is due upon

signing. You will also pay a development fee for the additional 1 Production Unit and 8 Non-Production Units to be developed of \$184,000. The franchise fee for the additional Production Unit will be \$48,000. The franchise fee for each Non-Production Unit will be \$40,000. In the case of each franchised business after the first one, we will credit against the franchise fee the amount of the development fee paid with respect to that franchised business.

**The balance of your initial investment for the first franchised business is as stated in the preceding tables. Your costs to develop the second and each additional franchised business may be affected by factors, such as inflation, local labor costs, materials cost and other factors.

ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Franchise Agreement

We can designate a supplier as an exclusive supplier of specified products/services/equipment, to concentrate purchases with one or more suppliers and receive royalties or other payments from suppliers for selecting them as organization suppliers or for allowing them to sell proprietary products. We and our Affiliates have the right to derive profits and to receive discounts, commissions, rebates, promotional allowances and other economic benefits as a result of purchases by franchisees of products, equipment and services from us or our Affiliate or from any other supplier. We and any Affiliate of ours can be a party to agreements with suppliers that provide for marketing or promotional rebates or allowances, volume discounts or other economic benefits. Any rebates, discounts, allowances, profits, mark ups or other benefits earned under these agreements or otherwise as a result of franchisees' purchases of that supplier's products or otherwise may be kept and used by us or our Affiliate in our/its sole discretion, as applicable. We and our Affiliates can be an approved supplier or exclusive supplier of specific equipment/products/services to be purchased by franchisees. We and each Affiliate will earn a profit related to sales of products (including proprietary products), equipment and services to franchisees.

You must use, offer and maintain specified items in stock in such quantities as are needed to meet reasonably anticipated consumer demand, including certain bakery flour, dough, meat products, desserts and other items as specified in the Confidential Operations Manual, which meet our standards and specifications and/or formulas (collectively, called "Lee's Sandwiches Products.") You must purchase a sufficient supply of Lee's Sandwiches Products and other items before beginning operations of the franchised business and on an ongoing basis, as needed. You must purchase these products from us or our Affiliate or an approved supplier/distributor as applicable. We have the right to adjust the number and type of such products. Any products purchased from us or our Affiliate must be purchased according to the then current order, delivery and payment policies and procedures then in effect. We, our Affiliate and approved suppliers reserve the right to change prices and terms related to products/services sold or manufactured by any of us, and to discontinue the manufacture and/or sale of any such products/services in our sole discretion. Neither we nor our Affiliate shall be liable for any delays in shipment, receipt, or delivery in connection with any approved or designated products.

Currently, our Affiliate, Lee Bros. Foodservices, Inc., is an approved supplier of Lee's Sandwiches Products and a designated supplier of meat products. Lee Bros. Foodservices, Inc. did not have any revenues in 2022 from product sales made to franchisees. Additionally, our CEO, Chieu Van

Le, and our Secretary, Yen Le, have an ownership interest in Lee Bros. Foodservices, Inc. Our Affiliate, LQNN Inc., derives revenue as a result of supplying you with your requirements of Lee*s Sandwiches Products and other products. LQNN, Inc. purchases products from Lee Bros. Foodservices, Inc. for resale. Lee Bros. Foodservices, Inc. makes a profit on its sales of these products to LQNN, Inc. These inventory products are sold by LQNN, Inc. to franchisees and other customers. During the fiscal year ending December 31, 2022, LQNN, Inc. recognized revenues of \$9,868,363 in the sale of inventory items to Lee*s Sandwiches franchisees, or 24% of LQNN Inc.'s total revenues of \$40,511,842.

We do not receive any revenue as a result of our Affiliates' sales of the before-mentioned inventory products. Our parent, LCJJ Holdings, Inc. does not derive any revenues from franchisee purchases.

Periodically, we negotiate pricing arrangements, including volume discounts on behalf of our franchisees with our suppliers. Volume discounts may not be available to franchisees located in outlying markets that a particular supplier does not serve in significant volume. Presently, there are no purchase or supply agreements in effect and no purchasing or distribution cooperatives that you must join.

You must purchase your furniture, fixtures, equipment, including computer equipment, inventory, and signage under specifications in the Lee*s Sandwiches Confidential Operations Manual ("Confidential Operations Manual"). These specifications include standards and specifications for appearance, quality, price, performance and functionality. These standards and specifications are based on our Affiliates' experience in operating businesses of the type we are franchising and through research and testing in our Affiliates' businesses. We may communicate our standards and specifications directly to suppliers who wish to supply you with furniture, fixtures, equipment, inventory and signage under specifications. We communicate our standards and specifications to you when we evaluate your proposed location for the franchised business, during training, before you conduct your grand opening advertising, during on-site opening assistance, during periodic visits to your franchise location and through the Confidential Operations Manual (including periodic bulletins). We will periodically issue new standards and specifications (if any) through written notices.

If you would like to use any goods or services in establishing and operating the franchised business that we have not approved (for goods and services that must meet our standards, specifications or that require supplier approval), you must first send us sufficient information, specifications and samples for us to determine whether the goods or services comply with our standards and specifications or whether the supplier meets our approved supplier criteria. You must pay our expenses to evaluate goods, services or suppliers. We will decide within 30 days after receiving the required information whether you may purchase or lease the goods or services or from the supplier. Our criteria for approving or revoking approval of suppliers includes: the supplier's ability to provide sufficient quantity of goods; quality of goods or services at competitive prices; production and delivery capability; and dependability and general reputation.

Periodically, we may review our approval of any goods, services or suppliers. We will notify you in writing if we revoke our approval of goods, services or suppliers, and you must immediately stop purchasing disapproved goods or services, or must immediately stop purchasing from a disapproved supplier. Additionally, we negotiate pricing arrangements, including volume discounts, on behalf of our

franchisees with our suppliers. Volume discounts may not be available to franchises located in outlying markets that a particular supplier does not serve in significant volume. Presently, there are no purchase or supply agreements in effect and no purchasing or distribution cooperatives that you must join.

We estimate that approximately 30% to 60% of your expenditures for leases and purchases in establishing your Lee's Sandwiches franchise will be for goods and services that must be purchased from us, our Affiliates or an approved supplier or according to our standards and specifications. We estimate that approximately 80% to 90% of your expenditures on an ongoing basis will be for goods and services that must be purchased from either us, our Affiliates, an approved supplier or according to our standards and specifications.

We do not provide material benefits to you (including renewal rights or the right to additional franchises) based on whether you purchase through the sources we designate or approve. We may take action, including terminating your franchise, if you purchase unapproved products or make purchase from unapproved suppliers. We have no purchasing or distribution cooperatives serving our franchise System.

Development Agreement

You are not required to purchase any goods or services as a party to an Area Development Agreement.

ITEM 9. FRANCHISEE'S OBLIGATIONS

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

Obligation		Section in the Franchise Agreement (FA) or Development Agreement (DA)	Disclosure Document ITEM
a.	Site selection and acquisition/lease	FA: Section 5 DA: Not Applicable	ITEMS 11 and 12
b.	Pre-opening purchases/leases	FA: Sections 5, 12 and 15 DA: Not Applicable	ITEMS 7 and 8
c.	Site development and other pre-opening requirements	FA: Sections 5 and 8 DA: Not Applicable	ITEMS 7, 8 and 11
d.	Initial and ongoing training	FA: Section 8 DA: Not Applicable	ITEMS 6, 7 and 11
e.	Opening	FA: Sections 5, 8 and 11 DA: Section 4	ITEM 11
f.	Fees	FA: Sections 3, 5, 8, 11, 13, 15, 19 and 23 DA: Sections 3 and 7	ITEMS 5, 6 and 7
g.	Compliance with standards and policies/Operating Manual	FA: Sections 6, 7, 8, 9, 10 and 13 DA: Not Applicable	ITEMS 8, 14 and 16

Obligation		Section in the Franchise Agreement (FA) or Development Agreement (DA)	Disclosure Document ITEM
h.	Trademarks and proprietary information	FA: Sections 6, 7 and 9 DA: Section 6	ITEMS 13 and 14
i.	Restrictions on products/services offered	FA: Sections 5, 6 and 13 DA: Not Applicable	ITEMS 8 and 16
j.	Warranty and customer service requirements	FA: Section 13 DA: Not Applicable	ITEM 16
k.	Territorial development and sales quotas	FA: Not Applicable DA: Sections 2 and 4, and Exhibit A	ITEM 12
l.	Ongoing product/service purchases	FA: Section 13 DA: Not Applicable	ITEMS 8 and 11
m.	Maintenance, appearance and remodeling requirements	FA: Sections 5, 10 and 13 DA: Not Applicable	ITEM 6
n.	Insurance	FA: Section 15 DA: Not Applicable	ITEMS 6, 7 and 8
o.	Advertising	FA: Section 11 DA: Not Applicable	ITEMS 6, 7 and 11
p.	Indemnification	FA: Section 22, Exhibit 5 DA: Section 11	ITEM 6
q.	Owner's participation/management/staffing	FA: Sections 9.4, 13, and 22 DA: Sections 4 and 11	ITEM 15
r.	Records and reports	FA: Section 12 DA: Not Applicable	ITEM 11
s.	Inspections and audits	FA: Sections 6 and 12 DA: Not Applicable	ITEMS 6, 11 and 13
t.	Transfer	FA: Section 19 and Exhibits 1, 5, and 6 DA: Section 7 and Exhibit D	ITEM 17
u.	Renewal	FA: Section 4 and Exhibits 1 and 6 DA: Section 5 and Exhibit D Renewal Addendum to the Franchise Agreement	ITEM 17
v.	Post-termination obligations	FA: Section 18 and Exhibits 2-A, 2-B and 6 DA: Section 9 and Exhibit D	ITEM 17
w.	Non-competition covenants	FA: Sections 7 and 18 and Exhibits 2-A, 2-B and 6 DA: Section 9 and Exhibit D	ITEM 17
x.	Dispute resolution	FA: Section 24 and Exhibit 6 DA: Section 13 and Exhibit D	ITEM 17
y.	Other	Not Applicable	Not Applicable

ITEM 10. FINANCING

We do not offer direct or indirect financing. We do not guarantee your lease or other obligations.

ITEM 11. FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

Except as listed below, Lee's Sandwiches, International, Inc. is not required to provide you with any assistance.

A. Before you open the franchised business, we will:

1. if we have not already approved a site for the franchised business before signing the Franchise Agreement, we will designate the area in which you must locate the franchised business, provide you with our criteria for site selection and evaluate sites you propose for the location of the franchised business. (Franchise Agreement, Sections 2.3 and 5.1)
2. designate your territory (protected territory). (Franchise Agreement, Section 2.5)
3. if you are a developer, designate your Development Territory. (Development Agreement, Section 2.1)
4. review your lease or purchase agreement, if applicable, for the approved site for the franchised business. (Franchise Agreement, Section 5.3)
5. provide you with specifications for remodeling and equipping the approved location along with a list of required supplies, equipment and improvements that you must purchase and install for the operation of the franchised business. (Franchise Agreement, Section 5.4)
6. provide an initial training program. This training is described in detail later in this ITEM 11. (Franchise Agreement, Section 8.1)
7. provide to you on-site assistance and guidance (at no risk to us) to assist you with questions you may have in opening the franchised business. (Franchise Agreement, Section 8.2).
8. provide to you, on loan, one copy of the Lee's Sandwiches Confidential Operations Manual, or grant you access to an electronic copy of the Confidential Operations Manual. The approximate total number of pages in the Confidential Operations Manual as of the date of this Disclosure Document is 566. The Table of Contents of the Confidential Operations Manual is included as Exhibit D to this Disclosure Document. (Franchise Agreement, Section 9.1)

B. Methods Used to Select the Location of the Franchised Business

If you have a potential site for the franchised business, you may propose the location for our consideration. We may consent to the site after we have evaluated it. If you do not have a proposed site, we will designate a geographic area in which you must locate the franchised business and we will furnish you with our general site selection criteria. You are solely responsible for locating and obtaining a site that meets our standards and criteria and that is acceptable to us. (Franchise Agreement, Section 5.1) We may review your lease and require that it include certain protections for the franchise system as explained in the Franchise Agreement, as well as a collateral assignment of lease in a form similar to the one attached to the Franchise Agreement as Exhibit 5. (Franchise Agreement, Section 5.3)

The general site selection and evaluation criteria or factors that we consider in approving your site includes the condition of the premises, demographics of the surrounding area, proximity to other Lee's Sandwiches businesses, proximity to competitive businesses, lease requirements, traffic patterns, visibility, vehicular and pedestrian access, proximity to major roads, available parking and overall suitability. We will provide you with written notice of our approval or disapproval of any proposed site within a reasonable time (usually 30 days) after receiving all requested information. If we cannot agree with you on a suitable site for the franchised business within 90 days after you sign the Franchise Agreement, we may terminate the Franchise Agreement. (Franchise Agreement, Sections 5.1 and 5.2)

If you are a developer, you must locate each of your franchised businesses in the Development Territory, and for each you must propose the specific sites for our consideration, according to the process above. (Development Agreement, Section 2.1 and 4.3)

C. Typical Length of Time Before Operation

We estimate that the typical length of time between the signing of the Franchise Agreement and the opening of the franchise is 180 days. Factors that may affect your beginning operations include ability to secure permits, zoning and local ordinances, weather conditions and delays in installation of equipment and fixtures. You are required to open your franchised business and be operational within 240 days after signing the Franchise Agreement. (Franchise Agreement, Sections 5.4 and 5.6)

If you are a developer, failure to meet any timing requirement or deadline contained in your development schedule may result in termination of the Development Agreement. (Development Agreement, Section 8.1.6)

D. After the opening of the franchised business, we will:

1. offer advice and general guidance to you by telephone, e-mail, facsimile, newsletters and other methods. Our guidance is based on our and our Affiliates' knowledge and experience. We offer you advice and guidance to the extent we consider appropriate on a variety of business matters, including operational methods, accounting procedures, authorized products or services and marketing and sales strategies. (Franchise Agreement, Section 14.1)

2. make periodic visits to the franchised business to provide you with consultation, assistance and guidance in various aspects of the operation and management of the franchised business. We may prepare written reports suggesting changes or improvements in the operations of the franchised business and detailing deficiencies that become evident as a result of a visit. If we prepare a report, we may provide you with a copy by e-mail or facsimile if it is a written report, or by telephone if it is not written. (Franchise Agreement, Section 14.2)

3. make available to you operations assistance and ongoing training as we consider necessary. (Franchise Agreement, Sections 8.2 and 8.5)

4. make available to you changes and additions to the System as generally made available to all franchisees. (Franchise Agreement, Section 10.2)

5. approve forms of advertising materials you will use for local advertising and grand opening advertising. (Franchise Agreement, Sections 11.1 and 11.2)

6. provide you with modifications to the Confidential Operations Manual as they are made available. (Franchise Agreement, Section 9.2)

E. Advertising and Promotion

1. During your first 3 months of operation, you must spend a minimum amount we specify on local advertisement and promotion of initial opening (grand opening advertising), including print, media and other advertising or promotional efforts. The current minimum amount for a Baguette Factory Production Unit is \$20,000, for a Production Unit is \$10,000 and for a Non-Production Unit is \$1,000 and is subject to change by us. We determine the minimum amount by assessing advertising costs in your area and taking into account the time of year that you are opening. We will provide you with guidance for conducting grand opening advertising, and we will review and approve the materials you use in your grand opening advertising. (Franchise Agreement, Section 11.1)

2. Each month, beginning 3 months after you commence operation of the Franchised Business, you must spend 2% of the previous month's gross sales on advertising, promotions and public relations in the local area surrounding the franchised business. You will pay for your ads and promotions directly, but we will provide you with general marketing guidelines and we will review and approve your advertisements. You may not use any advertising materials that we have not approved. You have to meet any promotional, coupon and discount program or policies we may establish. We will not spend any funds on advertising your franchised business in your local area. (Franchise Agreement, Section 11.2)

3. We may develop a System-wide marketing fund and, if we do, you must contribute 2% of your weekly gross sales to the fund. We will give you 30 days' notice before implementing or increasing required contributions. Contributions to the Fund will be in addition to expenditures toward your grand opening advertising and toward local advertising. (Franchise Agreement, Section 11.3) If we establish a fund, we will administer the marketing fund as follows:

(a) We will control the creative concepts and the materials and media to be used, and we will determine the placement and allocation of advertisements. We may use print, television, radio, Internet or other media for advertisements and promotions. We do not guarantee that any particular franchisee will benefit directly or in proportion to their contribution from the placement of advertising by the marketing fund.

(b) We may use your contributions to meet or reimburse us for any cost of producing, maintaining, administering and directing consumer advertising (including the cost of preparing and conducting television, radio, Internet, magazine, direct mail and newspaper advertising campaigns and other public relations activities; developing and/or hosting an Internet web page of similar activities; employing advertising agencies to assist; providing promotional brochures; conducting market research; and providing other marketing materials to franchisees). We will maintain your contributions in a separate account from our funds and we will not use them for any of our general operating expenses, except for our reasonable administrative costs, overhead related to the administration of the marketing fund and salaries of any marketing personnel that may be employed by us. We will not use marketing fund contributions for the direct solicitation of franchise sales.

(c) We expect to use all contributions in the fiscal year they are made, although we are not required to do so. We will use any interest or other earnings of the marketing fund before we use current contributions. We intend for the marketing fund to be perpetual, but we have the right to terminate it if necessary. We will not terminate the marketing fund until all contributions and earnings have been used for advertising and promotional purposes or we have returned your *pro rata* share.

(d) All Lee*s Sandwiches businesses owned by our affiliates or us may, but are not obligated to, make similar contributions to the marketing fund.

(e) We will have an accounting of the marketing fund prepared each year and we will provide you with a copy if you request it. The accounting may or may not be audited. If we do elect to have the accounting be reviewed or audited and reported on by an independent certified public accountant, it will be at the marketing fund's expense.

As of our last fiscal year ended December 31, 2022, we have not collected any marketing fund contributions.

4. Although we are not obligated to do so, we may create a cooperative advertising program for the benefit of all franchises located in a particular region. We have the right to collect and designate all or a portion of the local advertising expenditures for cooperative advertising, or to require franchisees in a region to contribute some or all of their local advertising expenditures into a cooperative fund. We will determine the geographic territory and market areas for each cooperative advertising program. You must participate in any cooperative advertising program established in your region. If cooperative advertising is implemented in a particular region, we may establish an advertising council for franchises in that region to self-administer the program. If we establish a cooperative advertising program or programs with or without an advertising council, there are no limits on our right to change, dissolve or merge these program(s) and/or council(s) at any time. (Franchise Agreement, Section 11.4)

5. You must list the telephone number for the franchised business in your local telephone directory and advertise your franchised business in the “yellow pages” category that we specify. You must place the listings together with other franchises operating within the distribution area of the directories. (Franchise Agreement, Section 11.6)

6. You are restricted from establishing a presence on, or marketing using, the Internet without our consent. We have an Internet website at the uniform resource locator www.leessandwiches.com that provides information about the System and about Lee’s Sandwiches franchises. We may (but we are not required to) include at the Lee’s Sandwiches website an intranet section or an interior page containing information about your franchised business. If we include this information on the Lee’s Sandwiches website, you may be requested to prepare the page, at your expense, using our template. All information must be approved by us before it is posted. We retain the sole right to market on the Internet, including the use of websites, domain names, uniform resource locators, keywords, linking, search engines (and search engine optimization techniques), banner ads, meta-tags, marketing, auction sites, e-commerce and co-branding arrangements. You may be requested to provide content for our Internet marketing and you must follow our intranet and Internet usage rules, policies and requirements. We retain the sole right to use the Marks on the Internet, including on websites, as domain names, directory addresses, search terms and meta-tags, and in connection with linking, marketing, co-branding and other arrangements. We retain the sole right to approve any linking to, or other use of, the Lee’s Sandwiches website. (Franchise Agreement, Section 11.5)

7. We may, but are not required to, provide you advertising templates, mobile or other applications or other promotional material for marketing your franchised business, which you may have to customize for your use. We may choose to charge a reasonable fee for these materials. These charges will not count towards your marketing fund contributions of fees and are separate and distinct from your marketing fee obligations. (Franchise Agreement, Section 11.2.3)

8. You may not implement any gift card, gift certificate, customer loyalty or similar rewards program or any mobile or other payment capability/app/program for your franchised business without our prior written approval or as may be authorized in any Confidential Operations Manual or through other written communication to all Franchisees. We can condition our consent on your compliance with or inclusion of particular program terms or practices designed to protect the good will associated with the Marks. You must accept credit cards, debit cards, and such other means of payment as we may require. You also must sell and accept approved gift cards, gift certificates, and other comparable items we approve, as provided or designated by us or which are prepared using any standard form we prescribe. You have to abide by the terms of any gift card or gift certificate or loyalty program we specify, all as provided in any Manual or through other written communication to Franchisees and at your expense, including all policies and procedures relating to sales, issuance and redemption and payment of related fees and costs. You agree to honor gift cards in the form we provide or approve, if any, regardless of whether issued directly or indirectly by you, us or another Lee’s Sandwiches Unit, and to timely make any payments due to us or a designee for gift cards sold by you and to comply with processes for requests for reimbursement for goods and services sold in exchange for gift cards. You must implement and accept in your franchised business any mobile or any other payment capability/app/program we designate from time to time and abide by the terms of any related mobile or

any other payment program policies and procedures, all as provided in any Confidential Operations Manual or through other written communication to Franchisees and at your expense. You must purchase or lease, install and use all equipment components and software that meet any standards and specifications we establish and which allow you to accept and process any gift/loyalty cards, certificates or programs and mobile or any other payment programs, as we may require. You must give us independent access to related system information. Expenses incurred by you related to any gift card, certificate or customer loyalty program or any mobile or other payment capability/app/program are not considered to be marketing fund contributions or to satisfy any Cooperative Advertising requirement and are separate and distinct from your marketing fee obligations and Cooperative Advertising requirements. (Franchise Agreement, Section 11.2.4)

F. Computer Equipment

You must purchase and use any hardware and computer software programs we designate. Presently, we require you to purchase and use the following hardware and software that conforms to our standards and specifications as provided in our Confidential Operations Manual.

HARDWARE	
Quantity	Description
1-5	Cash Register 15" LCD PCap Panel Terminal Pedestal 4GB RAM 64GB SSD 10" 12vdc Customer Display Monitor W/Stand Epson M3812-4550 Receipt Printer USB Handheld Scanner Model DS9208 16" Cash drawer with cable and insert - North America 3 Trk Card Reader W/Bio Reader Uninterrupted Power Supply 550 Volt- ampere / 330 Watt
1	POS AD Server PC Server (3.0 GHz, 2M Cache 800 MHz FSB; 4 GB RAM; 32bit Windows OS; 80GB HD; 30x CDROM; Sound Card) 17" LCD Display UPS Backup Battery
1	Callout System Amplifier Speaker(s)

HARDWARE	
Quantity	Description
	Epson TM-T88V Serial Kitchen Receipt Printer Epson TM-T88V Serial Beverage Receipt Printer 8 or 16 Port Switch Firewall Router with or without VPN RJ45 to DB9 M/M 120cm Serial RS232 Adaptor Cable Wireless-G Access Point/Router Video Splitter Additional Advertising Displays Additional Cables Additional Accessories
SOFTWARE	
	M615x Windows10 Iot 64b Brink Pos
	Brink POS portal access and reporting tool/monthly fee Brink Future Data Software as a Service Integration API - Restaurant 365 Integration API – OLO Integration API – Punchh
	POS Advertising Display Software (per AD Server)
	SQL Database Software
	Antivirus Software

The approximate cost of the hardware and software ranges from \$12,000 to \$35,000, depending on what model franchise you choose. In addition, we require all franchisees to obtain POS support services, including phone support, repairs and online ordering, from an approved vendor of POS services. Currently, the annual fee for these POS services is \$2,500, but it can change.

MONTHLY Fees Associated with POS System

Product/Service Name	Monthly Amount
Brinks POS Fee	\$180.00
Brinks ParPay credit card processor	\$40.00
Olo (Mobile and Online order) Service Edition Fee	\$70.00

Product/Service Name	Monthly Amount
Olo (Mobile and Online order) Order Package Fee	\$35.00
Punchh Customer Reward app	\$200.00
Worldpay/Parpayment Credit Card Service Provider (credit card service)	\$24.95
Worldpay/Parpayment Credit Card Service Provider (gift card service)	\$24.95

There is also a fee of \$0.03 per transaction charged by Worldpay/Parpayment Credit Card Service. You may choose to use our optional accounting and inventory software. The monthly service fee for the software is \$149.

We do not have separate computer system requirements for a developer entering into a Development Agreement.

We may introduce new requirements for computer and point-of-sale systems or modify our specifications and requirements. There are no limits on our rights to do so. There are no contractual limitations on our right to independently access all information you collect or compile at any time without first notifying you. (Franchise Agreement, Sections 10.2, 12.5 and 12.6)

You will be required to install a computer surveillance system consisting of the following minimum requirements: 8-16 cameras (3 mp 1080P resolution, infrared lighting, covering all non-private areas including one on top of each cash register) Network Video Recorder (3TB of storage, 24/7 motion recording, remote access, which costs for this system may range between approximately \$2,000 to \$5,000. We reserve the right to be given direct access to camera feeds, although we do not currently require this. (Franchise Agreement, Section 12.6)

You must comply with the then-current Payment Card Industry Data Security Standard and any revision to it adapted by the PCI Security Standards Council, LLC (the “PCI Council”) or any successor organization or standards we may specify. You must implement enhancements and security requirements and other requirements established by the PCI Council for merchants accepting payment by credit or debit cards. (Franchise Agreement, Section 13.13)

G. Training

We provide you an initial training program that covers material aspects of the franchised business. The topics covered are listed in the chart below. The training materials will include review of the Confidential Operations Manual and training manual.

This training is conducted at our Affiliate’s location in Garden Grove, California, or another location we designate. You must designate an individual franchisee or owner who holds at least 5% or greater share of the equity in the franchisee entity to have primary responsibility for the management of the franchised business (the “designated owner”) and the initial training is mandatory for him or her. Your designated owner must complete the initial training to our satisfaction approximately 4 weeks before the opening of the franchised business. Your other equity owners, if any, and up to one managerial employee may also attend training, for a total of up to 3 persons. We expect that your attendees will

advance through the training program at different rates depending on a variety of factors including background and experience. The time frames provided in the chart are an estimate of the time it will take to complete training. You must pay for all travel costs and living expenses for yourself and any of your attendees. You are at all times solely responsible for training your own employees and other management personnel. This initial training is in addition to the on-site opening assistance we provide to you, which is generally about 1 week long around the time of your store opening. Your franchised business must at all times be under the day-to-day supervision of a designated owner who has completed our training program to our satisfaction. If you replace your designated owner, your new designated owner must attend our training and complete the program to our satisfaction. After a replacement of the designated owner, he or she has 60 days to satisfactorily complete initial training. We can charge you then current training expenses associated with the new designated owner's initial training program, which are payable by you upon demand. You must pay all travel costs and living expenses for a new designated owner's attendance. (Franchise Agreement, Section 8)

TRAINING PROGRAM

Baguette Factory Production Unit and Production Unit			
SUBJECT	HOURS OF CLASSROOM TRAINING	HOURS OF ON-THE-JOB TRAINING	LOCATION
Intro/Business Philosophy/Overview of Operations	7	0	Garden Grove, California
Departmental Technique Overview	1	0	Garden Grove, California
Cashier/Deli Manjoo	3	13	Garden Grove, California
Sandwiches	4	28	Garden Grove, California
Coffee/Smoothie/Desserts	4	20	Garden Grove, California
Sanitation/Maintenance	1	11	Garden Grove, California
Cooler/Freezer/Inventory Storage	4	8	Garden Grove, California
Kitchen	4	28	Garden Grove, California
Bakery	3	45	Garden Grove, California
Admin/Acct./Personnel Overview	4	0	Garden Grove, California
Inventory Ordering	4	8	Garden Grove, California
Employee Scheduling	4	8	Garden Grove, California
Cash Management	4	0	Garden Grove, California
Quality Control	3	5	Garden Grove, California
On the Job Management	96	8	Garden Grove, California

Non-Production Unit			
SUBJECT	HOURS OF CLASSROOM TRAINING	HOURS OF ON-THE-JOB TRAINING	LOCATION
Intro/Business Philosophy/Overview of Operations	7	0	Garden Grove, California
Cashier/Deli Manjoo	3	13	Garden Grove, California
Sandwiches	4	28	Garden Grove, California
Coffee/Smoothie/Desserts	4	20	Garden Grove, California
Sanitation/Maintenance	1	11	Garden Grove, California
Cooler/Freezer/Inventory Storage	4	8	Garden Grove, California
Kitchen	4	28	Garden Grove, California
Bakery	3	21	Garden Grove, California
Admin/Acct./Personnel Overview	4	0	Garden Grove, California
Inventory Ordering	4	8	Garden Grove, California
Employee Scheduling	4	8	Garden Grove, California
Cash Management	4	0	Garden Grove, California
Quality Control	3	5	Garden Grove, California
On the Job Management	96	8	Garden Grove, California

Training will be conducted by Tom Quach, Lien Quach and Linda Quach. Their qualifications are as follows:

Tom Quach has 21 years' experience in the operation of a Lee*s Sandwiches business and 21 years' experience in the foodservice industry.

Lien Quach has 21 years' experience in the operation of a Lee*s Sandwiches business and 21 years' experience in the foodservice industry.

Linda Quach has over 37 years' experience in the foodservice industry and 21 years' experience in the operation of a Lee*s Sandwiches business.

If circumstances require, a substitute trainer may provide training to you. We may periodically name additional trainers if the training schedule requires it. There are no limits on our right to assign a substitute to provide training. Any substitute or additional trainer that we may use will be trained by us and will have a minimum of 6 months' experience with our System. We may also alter the type of instructional material used or provide additional instructional material during training sessions. As of the effective date of this Disclosure Document, substitute trainers have not been used. Additionally, we may occasionally agree in our discretion to deliver the initial training content entirely on-site at your store location. If we make that choice, we anticipate arriving on-site approximately 1 week before your store opening and

remaining on site for approximately 3 weeks after opening, although this time period may be longer or shorter. We may condition our agreement to such a request upon you holding us harmless and indemnifying us for any liabilities associated with our training on your site.

If you are unable to satisfactorily complete initial training within the time frames described above in this Item 11, we can require you to reimburse us for costs we incur beyond the scheduled training period.

Periodically, you may be required to attend refresher-training programs to be conducted at our headquarters or other locations we think beneficial. Any mandatory programs of this sort will be provided to you at no cost. You will be responsible for travel, lodging and other out-of-pocket expenses associated with attending the refresher-training programs.

ITEM 12. TERRITORY

Franchise Agreement

You will not receive an exclusive territory. You will receive a non-exclusive territory (called a “protected 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. The protected territory will be described and depicted in a map attached to the Franchise Agreement when your approved location is identified. We determine the boundaries of the area based on a variety of factors, including population, median population age, proximity to competitors, proximity to other franchisees and natural, physical or political boundaries. We anticipate that the protected territory for a food court unit or a unit located in a captive venue, such as a university, a hospital or another site with a separate and distinct commercial purpose, will be limited to the building in which the unit is located. If we approve in our discretion any mobile franchised unit or temporary location (such as at a fairground or other limited time event) no protected territory will be included.

We will not establish any other Lee*s Sandwiches Baguette Factory Production Unit, Production Unit or Non-Production Unit in your protected territory. We may establish a Lee*s Sandwiches Non-Production Unit and any kind of Lee*s Sandwiches Business located in a captive venue in your protected territory. We and our affiliates have the right to establish, license, own and/or operate all types of Lee*s Sandwiches Businesses anywhere outside your protected Territory, regardless of their proximity to your Lee*s Sandwiches Business or the customers it serves. We, our affiliates and others we may license can establish, own and/or operate Lee*s Sandwiches Non-Production Units or mobile or temporary Lee*s Sandwiches Businesses inside or outside of your protected territory. We, our affiliates and others we may license, establish, own and/or operate businesses, whether using the Marks or not, different from Lee*s Sandwiches Businesses, inside and outside your protected territory.

We can acquire the assets or controlling ownership of one or more businesses identical or similar to the franchised business (and/or acquire franchise, license and/or similar agreements for these businesses), some or all of which may be located anywhere, including within the Protected Territory. If we purchase or acquire franchises or licenses, we may, in our sole discretion, act as franchisor or licensor with respect to those franchisees or licensees wherever they are located, under the individual franchise or license agreement(s) between us and the franchisee(s) or licensee(s). We also can be acquired

(regardless of the form of transaction) by any business, even if the other business operates, franchises and/or licenses competitive businesses within the Protected Territory. We and our affiliates may use the Marks or other trademarks, service marks and commercial symbols in connection with sales to other restaurants, retail outlets and individual customers of any products and services, including those you are authorized to use in or sell from Lee's Sandwiches Businesses. We and our affiliates also may use the Marks or other trademarks, service marks and commercial symbols in connection with sales through alternate channels of distribution, such as joint marketing with partner companies, direct mail, grocery stores and outlets and Internet sales, of any products and services, including those you are authorized to use in or sell from Lee's Sandwiches Businesses, regardless of where the customer is located. These activities through alternate channels of distribution, including Internet sales, telemarketing, grocery stores and outlets, or other direct marketing sales to the extent allowed in the Franchise Agreement may compete with your franchised business. We and our affiliates may sell products and services through alternate channels of distribution for a higher or lower price than we or they charge you for similar products and services. We will not compensate you for any sales of products and services made in your area through an alternate channel of distribution or otherwise.

Currently, our affiliate, LQNN, Inc. sells to supermarkets and warehouse stores the same/similar products you will offer and sell. Additionally, we sell select Lee's Sandwiches products through our website, www.leessandwiches.com, and LQNN, Inc. and Lee Bros. Foodservices, Inc., are distributors of various Lee's Sandwiches products to franchisees, as well as to other third party customers, regardless of where they are located. You may not directly market to or solicit customers located inside another franchisee's protected territory including Internet sales, catalog sales, telemarketing or other direct marketing. Unless you are advertising cooperatively with another franchisee, you may not advertise in any media primarily circulated within another franchisee's protected territory.

You will operate the franchised business from one location that we approve. You must receive our permission before relocating. If you can no longer use the location due to circumstances beyond your control or fault, including destruction of the premises, you may be allowed 90 days within which to relocate either permanently or temporarily to another approved location. If you attempt to sell your franchised business or transfer your interest from the franchised business to a third party, we may exercise our right of first refusal to purchase your franchise on the same terms and conditions as offered by a third party. You do not receive the right to acquire additional franchises in your protected territory. You must meet our qualifications for new franchisees and pay a franchise fee to qualify for an additional franchise location. You may not advertise on the Internet or otherwise direct advertising to areas outside your protected territory without our consent. Our consent, if granted, may be conditioned on a requirement that you combine such advertising with other franchises that are located in the markets or areas targeted by the advertising. Your territorial protections are not dependent upon achievement of a certain sales volume, market penetration or any other contingency. As long as the Franchise Agreement is in effect, your protected territory will not be altered.

Development Agreement

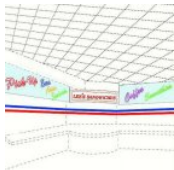
You will not receive an exclusive territory. We will grant you a Development Territory. Your Development Territory will be agreed upon by you and us at the time of the signing of the Development Agreement. The Development Territory will vary in size depending on factors including the number of

Lee's Sandwiches businesses you intend to develop and the population density and demographics of the area under consideration. We will not establish any new franchised or company-owned Lee's Sandwiches businesses in your Development Territory during the term of the Development Agreement. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control. You must open a set number of franchises. Each franchise must be opened within a set time frame and each site requires our prior approval. The number of franchises and the opening schedule are decided before we sign a Development Agreement with you. We and our Affiliates reserve all rights in the Development Territory not expressly given to you. We and our Affiliates also reserve certain rights in the Development Territory, as provided below, including the rights to:

- i. continue to own and operate, and allow others to continue to own and operate, Lee's Sandwiches Businesses existing or under construction inside of the Development Territory as of the date of the Development Agreement, if any;
- ii. establish, or grant to others the right to establish, Lee's Sandwiches Businesses outside of the Development Territory;
- iii. establish and operate, and license others to establish and operate, businesses, whether using the Marks or not, different from the Lee's Sandwiches Businesses that Developer will establish, both within and outside the Development Territory;
- iv. purchase or otherwise acquire the assets or controlling ownership of 1 or more businesses identical or similar to Lee's Sandwiches Businesses (and/or acquire franchise, license and/or similar agreements for such businesses), some or all of which may be located anywhere, including within the Development Territory. If we purchase or acquire franchises or licenses, we may choose to act as franchisor or licensor for the franchisees or licensees wherever located, under the individual franchise or license agreement(s) between us and the franchisee(s) or licensee(s);
- v. be acquired (regardless of the form of transaction) by any business, even if the other business operates, franchises and/or licenses competitive businesses within the Development Territory;
- vi. use the Marks or other trademarks, service marks and commercial symbols in connection with sales to other restaurants, retail outlets and individual customers of any products and services, including those you are authorized to use in or sell from the Lee's Sandwiches Businesses you develop; and
- vii. use the Marks or other trademarks, service marks and commercial symbols in connection with sales through alternate channels of distribution, such as joint marketing with partner companies, direct mail, grocery stores and outlets and Internet sales, of any products and services, including those you are authorized to use in or sell from the Lee's Sandwiches Businesses you develop in your Development Territory, regardless of where the customer is located, and for a price that may be higher or lower than the price that you pay.

ITEM 13. TRADEMARKS

You receive the right to operate your business under the trademark “Lee’s Sandwiches®”, which is the principal trademark used to identify our System. You may also use any other current or future Mark that we designate, including the logo on the front of this Disclosure Document, to operate your franchised business. By “Mark,” we mean any trade name, trademark, service mark or logo that we may authorize you to use to identify your business. We have a registration of the following Marks on the United States Patent and Trademark Office (“USPTO”) Principal Register.

MARK	REGISTRATION NUMBER	REGISTRATION DATE
LEES SANDWICHES (design plus words, letters, and/or numbers)	3984995	June 28, 2011 Renewed November 6, 2021
LEE’S SANDWICHES (standard character mark)	3004517	October 4, 2005 Renewed October 14, 2015
 (design plus words, letters, and/or numbers)	3106012	June 20, 2006 Renewed July 25, 2016
 (design plus words, letters, and/or numbers)	3116071	July 18, 2006 Renewed February 15, 2017

We have filed all necessary affidavits for the trademarks as required by the USPTO.

Currently, we know of no effective material determinations of the United States Patent and Trademark Office, Trademark Trial and Appeal Board, the trademark administrator of any state or any court, state or federal involving the Marks. We know of no pending infringement, opposition or cancellation proceeding; we know of no pending material litigation in federal court or in any state court litigation regarding our use or ownership of the Marks.

There are no infringing or prior superior uses actually known to us that could materially affect the use of the Marks in the state of California or any other state in which the franchised business is to be

located. We have exclusive ownership of the Marks. No current Lee's Sandwiches business has any ownership interest in our Marks. You will be licensed the right to use the Marks, with ownership remaining exclusively with us.

There are no agreements currently in effect that significantly limit our rights to use or license the use of the Marks in any manner material to the franchise.

You do not receive any rights to the Marks other than the nonexclusive right to use them in the operation of your franchised business. You must follow our rules when you use the Marks. You must use the Marks as the sole trade identification of the franchised business. You must display appropriate signage stating that your franchised business is independently owned or operated from us. You cannot use our name or Mark as part of a corporate name. You may not use a name or Mark with modifying words, designs or symbols except for those which we license to you. You may not use any Mark in connection with the sale of any unauthorized products or services or in any other manner that we do not authorize in writing. You must obtain a fictitious or assumed name registration if required by your state or local law. Any unauthorized use of the Marks by you is a breach of the Franchise Agreement and an infringement of our rights in the Marks. You must not contest the validity or ownership of the Marks, including any Marks that we license to you after you sign the Franchise Agreement. You must not assist any other person in contesting the validity or ownership of the Marks.

You must immediately notify us when you learn about an infringement of, or challenge to your use of, any Mark, or any claim by any person of any rights in any Marks, and you must not communicate with any person other than us and our counsel regarding any infringements, challenges or claims unless you are legally required to do so, however, you may communicate with your own counsel at your own expense. We will take the action we think appropriate in these situations; we have exclusive control over any settlement or proceeding concerning any Mark. You must take any actions that, in the opinion of our counsel, may be advisable to protect and maintain our interests in any proceeding or to otherwise protect and maintain our interests in the Marks.

While we are not required to defend you against a claim against your use of our Marks, we will reimburse you for all of your expenses reasonably incurred in any legal proceeding disputing your authorized use of any Mark, but only if you notify us of the proceeding in a timely manner and you have complied with our directions with regard to the proceeding. We have the right to control the defense and settlement of any proceeding. We will not reimburse you for your expenses and legal fees for separate, independent legal counsel and for expenses in removing signage or discontinuing your use of any Mark. We will not reimburse you for disputes where we challenge your use of a Mark.

If we require, you must modify or discontinue the use of any Mark and use other trademarks or service marks we designate. We do not have to reimburse you for modifying or discontinuing the use of a Mark or for substituting another trademark or service mark for a discontinued Mark. If we adopt and use new or modified Marks, you must add or replace equipment, signs, supplies and fixtures, and you must make other modifications we designate as necessary to adapt your franchised business for the new or modified Marks. We do not reimburse you for any loss of goodwill associated with a modified or discontinued Mark.

You must not register or seek to register as a trademark or service mark, either with the USPTO or any state or foreign country, any of the Marks or a trademark or service mark that is confusingly similar to any of our Marks.

You may not advertise on the Internet using, or establish, create or operate an Internet site or website using any domain name containing, the words “Lee*s Sandwiches” or any variation of “Lee*s Sandwiches” without our prior written consent.

ITEM 14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

No patents are material to the franchise. We have no pending patent applications that are material to the franchise. We own copyrights in the Confidential Operations Manual, our website, our marketing materials and other copyrightable items that are part of the System. While we claim copyrights in these and similar items, we have not registered these copyrights with the United States Register of Copyrights. You may use these items only as we specify while operating the franchised business and you must stop using them if we direct you to do so.

We know of no effective determinations of the U.S. Copyright Office or any court regarding any of our copyrighted materials. Our right to use or license copyrighted items is not materially limited by any agreement or known infringing use.

We have developed certain trade secrets and other confidential information, including methods of business management, sales and promotion techniques, and know-how, knowledge of, and experience in, operating a Lee*s Sandwiches business. We will provide our trade secrets and other confidential information to you during training, in the Confidential Operations Manual and as a result of the assistance we furnish you during the term of the franchise. You may only use the trade secrets and other confidential information for the purpose of operating your franchised business. You may only divulge trade secrets and other confidential information to employees who must have access to it to operate the franchised business. You are responsible for enforcing the confidentiality provisions as to your employees.

Certain individuals with access to our trade secrets or other confidential information, including your shareholders (and members of their immediate families and households), officers, directors, partners, members, if you are a corporation, limited liability company or other business entity may be required to sign nondisclosure and non-competition agreements in a form the same as or similar to the Nondisclosure and Non-Competition Agreement attached to the Franchise Agreement. Except as prohibited by law, we may also require that you enter into nondisclosure and/or non-competition agreements with your employees, in a form that is acceptable to us. We will be a third-party beneficiary with the right to enforce the agreements.

All ideas, concepts, techniques or materials concerning the franchised business and/or the System, whether or not protectable intellectual property and whether created by or for you or your owners or employees, must be promptly disclosed to us and will be our sole and exclusive property and a part of the System that we may choose to adopt and/or disclose to other franchisees, and you hereby assign and agree to assign to us all right, title and interest in any intellectual property so developed. Likewise, we will

disclose to you concepts and developments of other franchisees that we make part of the System. You must also assist us in obtaining intellectual property rights in any concept or development if requested.

Your use of the Confidential Operations Manual, trade secrets or other confidential information in an unauthorized manner is a default of the Franchise Agreement that may result in automatic termination of the Franchise Agreement.

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

The franchised business must always be under the direct full-time day-to-day supervision of your designated owner, which is you if you are an individual, or is an individual you select if you are a business entity. The designated owner must attend and satisfactorily complete our initial training program before opening the franchised business. You must keep us informed at all times of the identity of your designated owner. If you replace the designated owner, your replacement must attend and satisfactorily complete our initial training program. If you are a developer of multiple Lee's Sandwiches businesses, you must participate in a supervisory role in each franchise you open.

Certain individuals associated with your franchised business, including your owners (and members of their immediate families and households), officers, directors, partners may be required to sign nondisclosure and non-competition agreements the same as or similar to the Nondisclosure and Non-Competition Agreement attached to the Franchise Agreement. Except as prohibited by law, we may also require that you enter into nondisclosure and/or non-competition agreements with your employees, in a form that is acceptable to us. We will be a third-party beneficiary with the independent right to enforce the agreements.

The designated owner must own at least 5% or greater interest in the franchised business. If franchisee is a corporation or other business entity, anyone who owns a 5% or greater interest in the entity must personally guarantee the performance of all of your obligations under the Franchise Agreement and be personally liable for your breach of the Franchise Agreement, as provided in the Unlimited Guaranty and Assumption of Obligations attached to the Franchise Agreement.

You are not our agent, legal representative, joint venturer, joint employer, partner, employee or servant. You are an independent contractor and are in no way authorized to make any contract, agreement, warranty or representation, or to create any obligation for us. You are solely responsible for any liability relating to the operation of the franchised business, including any involving your personnel.

You must operate your franchised business in compliance with all applicable federal, state and local laws, including the Fair Labor Standards Act, the Occupational Safety and Health Act, any state wage and hour or workers compensation act, any state unemployment compensation benefit law or regulation, any other employment-related or employee benefit requirement, laws relating to food safety, laws relating to persons with disabilities, and privacy and data protection laws. It is your responsibility to identify, obtain and maintain all authorizations necessary to your operation.

ITEM 16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must only offer the products and services we specify. You may not sell any products or services that we have not authorized for sale in the franchised business and you must discontinue offering any products or services that we disapprove. We may take action, including terminating your franchised business, if you offer or sell unapproved products or make purchases from unapproved suppliers. We may periodically change required or authorized products or services. There are no limits on our right to do so, except that any capital investment required during the initial term of the franchise, or during any renewal term, will not exceed \$50,000 if you operate a Baguette Factory Production Unit, Production Unit or Non-Production Unit.

You must not install or use at the franchised business any vending machines, amusement devices, jukeboxes, video machines or other similar devices without our express prior written approval.

Periodically, we may allow certain products or services that are not otherwise authorized for general use as a part of the System to be offered locally or regionally based on factors as we determine, including test marketing, your qualifications, and regional or local differences.

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 In Franchise or Other Agreement	Summary
a. Length of franchise term	Section 4.1; Section 1 of the Renewal Addendum to the Franchise Agreement	The initial term is 10 years for a Baguette Factory Production Unit or Production Unit and 5 years for a Non-Production Unit.
b. Renewal or extension of the term	Section 4.2; Section 1 of the Renewal Addendum to the Franchise Agreement	You may renew for 3 additional successive terms of 5 years each for a Baguette Factory Production Unit, Production Unit, or Non-Production Unit. If you fail to meet any one of the conditions in (c) below, we may refuse to renew or extend the terms of your Franchise Agreement.

Provision	Section In Franchise or Other Agreement	Summary
c. Requirements for franchisee to renew or extend	Section 4.2 and Exhibit 6; Renewal Addendum to the Franchise Agreement	You may renew the then current Franchise Agreement if you: have fully complied with the provisions of the Franchise Agreement; have the right to maintain possession of the approved location or an approved substitute location for the term of the renewal; have made capital expenditures as necessary to maintain uniformity with the System; have satisfied all monetary obligations owed to us; are not in default of any provision of the Franchise Agreement or any other agreement with us; have given timely written notice of your intent to renew; sign a current Franchise Agreement, which may have materially different terms and conditions than your original Franchise Agreement; the terms of which may differ substantially; comply with current training requirements; and sign our then current form of general release. Our current form of General Release is attached as Exhibit 1 to the Franchise Agreement, but is subject to change by us.
d. Termination by franchisee	Not Applicable	You may not terminate the Agreement, except as permitted by applicable law.
e. Termination by franchisor without cause	Not Applicable	
f. Termination by franchisor with cause	Section 16.2	We may terminate if you default on any of your obligations. Subject to applicable state law.
g. "Cause" defined-curable defaults	Section 16.2	If a default arises from your failure to comply with a mandatory specification in the Franchise Agreement or Confidential Operations Manual, or failure to meet payment or other obligations to vendors or third parties, you can avoid termination of the Franchise Agreement if you cure the default within 30 days of receiving our notice of default, except for the defaults below that require cure in a shorter time and non-curable defaults in (h) below. If a default arises from your failure to maintain insurance, you can avoid termination of the Franchise Agreement if you cure the default within 10 days of receiving our notice of your failure to maintain insurance. If a default arises from your failure to make payments due to us or an affiliate of ours, you can avoid termination of the Franchise Agreement if you cure the default within 5 days of receiving our notice of default. If we terminate the Franchise Agreement following a default, your interest in the franchise will terminate.

Provision	Section In Franchise or Other Agreement	Summary
h. "Cause" defined-non-curable defaults	Section 16.2 and Exhibit 6	We have the right to terminate the Franchise Agreement without giving you an opportunity to cure if you: fail to timely select an approved site for or establish, equip and begin operations of the franchised business; fail to have your designated owner satisfactorily complete training; made a material misrepresentation or omission in the application for the franchise; are convicted of or plead no contest to a felony or other crime or offense likely to affect the reputation of either party or the franchised business; after notices to cure, fail to refrain from activities, behavior or conduct likely to adversely affect the reputation of either party or the franchised business; use the Confidential Operations Manual, trade secrets or other confidential information in an unauthorized manner; if required, fail to have your owners (and members of their immediate families and households), officers, directors, managers, executives, employees and professional staff, and other individuals having access to trade secrets or other confidential information sign nondisclosure and/or non-competition agreements or, if requested, fail to provide us with copies of all signed nondisclosure and non-competition agreements; abandon the franchised business for 5 or more consecutive days; surrender or transfer control of the franchised business in an unauthorized manner; fail to maintain the franchised business under the supervision of a designated owner following your death or disability; submit reports on 2 or more separate occasions understating any amounts due by more than 3%; are adjudicated bankrupt, insolvent or make a general assignment for the benefit of creditors; misuse or make unauthorized use of the Marks; fail on 2 or more occasions within any 12 months to submit reports or records or to pay any fees due us or any affiliate; violate on 2 or more occasions any health, safety or other laws or operate the franchised business in a manner creating a health or safety hazard to customers, employees or the public; take any action reserved to us; fail to comply with applicable law after notice; breach the Franchise Agreement or fail to comply with specifications or fail to timely pay amounts due to Franchisor or its affiliates or to any supplier or business creditor on 2 or more occasions within any 12 months; or default under any other agreement with us (or an affiliate) so that we (or the affiliate) have the right to terminate the agreement. Any default under any other agreement between us or any Affiliate of ours can be a default under the Franchise Agreement.

Provision	Section In Franchise or Other Agreement	Summary
i. Franchisee's obligations on termination/non-renewal	Section 18.1, Exhibit 6	If the Franchise Agreement is terminated or not renewed, you must: stop operating the franchised business; stop using any trade secrets or other confidential information, the System and the Marks; discontinue domain names, e-mail addresses, Internet key word purchases, social network pages, videos and any other publication on the Internet using the Marks, including Facebook, Twitter, YouTube, Pinterest, Instagram, or other social media, and ensure the removal of any uses from all sites/media; instruct in writing all online directories search engines, and other advertising publishers as necessary to take down and remove any directory listings and advertisements containing the Marks and not use or authorize the use of links or similar reference devices associated with any use of the Marks; if requested, assign your interest in the franchise location to us; cancel or assign to us any assumed names; pay all sums owed to us including damages and costs incurred in enforcing the Franchise Agreement; return the Confidential Operations Manual, trade secrets and all other confidential information; assign your telephone and facsimile numbers to us; comply with the covenants not to compete as permitted under law and any other surviving provisions of the Franchise Agreement.
j. Assignment of contract by franchisor	Section 19.1	There are no restrictions on our right to assign our interest in the Franchise Agreement.
k. "Transfer" by franchisee-definition	Section 19.2	"Transfer" includes transfer of an interest in the franchise, the Franchise Agreement, the approved location, the franchised business's assets and the Franchisee (business entity), as applicable.
l. Franchisor's approval of transfer by franchisee	Section 19.2	You may not transfer your interest in any of the items listed in (k) above without our prior written consent.

Provision	Section In Franchise or Other Agreement	Summary
m. Conditions for franchisor approval of transfer	Section 19.2 and 19.3; Exhibit 5	We will consent to a transfer if: we have not exercised our right of first refusal; all obligations owed to us are paid; you and the transferee have signed our then current form of general release; the prospective transferee meets our business and financial standards; the transferee and all persons owning any interest in the transferee sign the then current Franchise Agreement for its term or assume the transferor's Franchise Agreement for the balance of its term, at our option, as well as customary ancillary documents; you provide us with a copy of all contracts and agreements related to the transfer; you or the transferee pay a transfer fee of \$15,000 for a Baguette Factory Production Unit or Production Unit, \$10,000 for a Non-Production Unit; the transferee or the owners of transferee have agreed to be personally bound by all provisions of the Franchise Agreement; you have agreed to guarantee performance by the transferee, if requested by us; the transferee has obtained all necessary consents and approvals of third parties; you or all of your equity owners have signed a nondisclosure and non-competition agreement in a form the same as or similar to the Nondisclosure and Non-Competition Agreement attached to the Franchise Agreement; the transferee has agreed that its designated owner will complete the initial training program before assuming management of the franchised business; and the transferee has obtained all necessary types of insurance. Transfers by Franchisee to a wholly owned business entity are subject to requirements pertaining to the formation of the entity, governing documents, stock certificates, and franchise assignment.
n. Franchisor's right of first refusal to acquire franchisee's franchised business	Section 20	We may match an offer for your franchised business or an ownership interest you propose to sell.

Provision	Section In Franchise or Other Agreement	Summary
o. Franchisor's option to purchase franchisee's franchised business	Section 18.4 and Exhibit 6	Except as described in (n) above, we do not have the right to purchase your franchised business; however, during the 30-day period after the termination or expiration of the Franchise Agreement, we have the right to purchase any assets of the franchised business. The purchase price will be (i) cost less 20% for any or all of your product inventory for; and (ii) the lower of your cost or fair market value for any other assets of the Franchised Business. If you and we cannot agree on fair market value, the fair market value will be determined by an independent appraiser selected by us, and the appraiser's determination will be final. If we exercise this option to purchase, we can assign our rights to a designee and also have the right to set off all amounts due from you under the Agreement against the purchase price.
p. Death or disability of franchisee	Section 19.6	Following the death or incapacity of an owner of the franchised business or the death or incapacity of any holder of a legal or beneficial interest in the franchised business, your or his or her representative must transfer, subject to the terms of the Franchise Agreement, the individual's interest in the franchised business within 180 days of death or incapacity or we may terminate the Franchise Agreement.
q. Non-competition covenants during the term of the franchise	Section 7.3	You, your owners (and members of their families and households) and your officers and directors are prohibited from: attempting to divert any business or customer of the franchised business to a competitive business or causing injury or prejudice to the Marks or the System; owning or working for a competitive business.

Provision	Section In Franchise or Other Agreement	Summary
r. Non-competition covenants after the franchise is terminated or expires	Section 18.2 and Exhibits 2-A, 2-B and 6	For 2 years after the termination or expiration of the Franchise Agreement, you, your owners (and members of their families and households) and your officers and directors are prohibited from: owning or working for a competitive business operating within 50 miles, if you operate a Baguette Factory Production Unit or a Production Unit, within 12 miles if you operate a Non-Production Unit, of the franchise location or within the protected territory (whichever is greater), or within 50 miles, if you operate a Baguette Factory Production Unit or a Production Unit, within 12 miles if you operate a Non-Production Unit, of any other Lee's Sandwiches business; attempting to divert any business or customer of the franchised business to a competitive business; or causing injury or prejudice to the Marks or the System.
s. Modification of the agreement	Sections 9.2, 23.7 and 23.8	The Franchise Agreement can be modified only by written agreement between you and us. We may modify the Confidential Operations Manual without your consent.
t. Integration/merger clause	Section 23.7 and Exhibit 5	Only the terms of the Franchise Agreement are binding (subject to applicable state law). Any representations or promises made outside of the Disclosure Document and Franchise Agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	Sections 24.4 – 24.7 and Exhibit 6	Except for claims relating to the Marks, trade secrets and other confidential information and covenants not to compete, and subject to applicable state law, all disputes must be arbitrated in Santa Clara County, California. Waiver of punitive, exemplary or multiple damages; class action waiver. (Subject to applicable law. See State Addenda, Exhibit 6).
v. Choice of forum	Section 24.2 and Exhibit 5	Subject to applicable state law, any litigation or arbitration must be pursued in courts located in Santa Clara County, California.

Provision	Section In Franchise or Other Agreement	Summary
w. Choice of law	Section 24.1 and Exhibits 2-A, 2-B and 6	Except for Federal Arbitration Act and related federal preemption requirements, California law applies, but no California franchise law applies unless jurisdictional, definitional and application requirements of the law are met independently of this franchise term. The provisions of Sections 7.1-7.3, 18.2 and 18.3 are subject to the law of the state where the claimed breach occurs. The Nondisclosure and Non-Competition Agreement (Exhibits 2-A and 2-B to the Franchise Agreement) is governed by the laws of the state where a claimed breach occurs, and no provisions of any statute, regulation or law regarding franchises will apply unless jurisdictional, definitional and other requirements thereof are met independently. (Subject to applicable state law. See State Addenda, Exhibit 6).

Development Agreement

Provision	Section in the Development Agreement	Summary
a. Term of the development rights	Section 5.1	The term expires on the last opening date on the schedule for development of the franchises.
b. Renewal or extension of the term	Section 5.1	You have no right to renew or extend the term.
c. Requirements for developer to renew or extend	Not Applicable	
d. Termination by developer	Not Applicable	You may terminate the Development Agreement under any grounds permitted by law.
e. Termination by franchisor without cause	Not Applicable	
f. Termination by franchisor with cause	Section 8	We may terminate the Development Agreement only if you default.

Provision	Section in the Development Agreement	Summary
g. “Cause” defined-curable defaults	Section 8.2	Other than for non-curable defaults described in h., below, you can avoid termination of the Development Agreement if you cure a default arising from your failure to comply with mandatory specifications in the Development Agreement within 30 days of receiving our notice of termination, unless otherwise provided under applicable law.
h. “Cause” defined-non-curable defaults	Section 8.1	We have the right to terminate the Development Agreement without giving you an opportunity to cure if you: transfer control of Development Agreement or transfer an interest in your business entity in an unauthorized manner; made a material misrepresentation or omission in the application for development rights; are convicted of or plead no contest to a felony or other crime or offense likely to affect the goodwill associated with the Marks; misuse or make unauthorized use of the Marks; terminate any franchise agreement with or without cause; fail to meet the timing requirements and deadlines contained in the schedule for development of the franchises; or fail to comply with any provision of the Development Agreement after notice of non-compliance. (Subject to applicable state and federal law. See State Addendum, Exhibit 6).
i. Developer’s obligations on termination/non-renewal	Section 9	If the Development Agreement is terminated or expires, you must: stop using any trade secrets and other confidential information; pay all sums owed to us; and comply with the covenants not to compete and any other surviving provisions of the Development Agreement. (Subject to applicable state and federal law. See State Addendum, Exhibit 6).
j. Assignment of contract by franchisor	Section 7.1	There are no restrictions on our right to assign our interest in the Development Agreement.
k. “Transfer” by developer-definition	Section 7.2	“Transfer” includes transfer of ownership in the development rights, the Development Agreement, or the developer entity.
l. Franchisor’s approval of transfer by developer	Section 7.2	You may not transfer your interest in any of the items listed in (k) above without our prior written consent.

Provision	Section in the Development Agreement	Summary
m. Conditions for franchisor's approval of transfer	Section 7.2	We will consent to a transfer if: we have not exercised our right of first refusal; all obligations owed to us are paid; you and the transferee have signed our then current form of General Release; the prospective transferee meets our business and financial standards; you provide us with a copy of all contracts and agreements related to the transfer; you or the transferee pay a transfer fee equal to \$5,000; the transferee or the owners of transferee have agreed to be personally bound by all provisions of the Development Agreement; the transferee has obtained all necessary consents and approvals of third parties; and you or all of your equity owners have signed a nondisclosure and non-competition agreement, in a form the same as or similar to the Nondisclosure and Non-Competition Agreement attached to the Franchise Agreement. (Subject to applicable state and federal law. See State Addendum, Exhibit 6).
n. Franchisor's right of first refusal to acquire developer's development rights	Section 7.5	We may match an offer for your development rights or an ownership interest you propose to sell.
o. Franchisor option to purchase developer's development rights	Not Applicable	
p. Death or disability of developer	Not Applicable	
q. Non-competition covenants during the term of the Development Agreement	Not Applicable	The Development Agreement incorporates by reference the non-competition covenants of the Franchise Agreement.
r. Non-competition covenants after the Development Agreement is terminated or expires	Section 9.4	The Development Agreement incorporates by reference the post-term non-competition covenants of the Franchise Agreement.
s. Modification of the agreement	Section 12.8	The Development Agreement can be modified only by written agreement between you and us.

Provision	Section in the Development Agreement	Summary
t. Integration/merger clause	Sections 12.1 and 12.8	Only the terms of the Development Agreement are binding (subject to applicable state law), although if there is a conflict between the Development Agreement and any Franchise Agreement, the terms of the Franchise Agreement control, except for the Development Schedule. Any representations or promises made outside of the Disclosure Document, Development Agreement and Franchise Agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	Sections 13.4 – 13.7	Except for claims relating to the Marks, trade secrets, confidential information and covenants not to compete, and subject to applicable state law, all disputes must be arbitrated in Santa Clara County, California. Waiver of jury trial; punitive, exemplary or multiple damages; class action waiver. (Subject to applicable state law.)
v. Choice of forum	Section 13.2	Subject to applicable state law, any litigation must be pursued in courts located in Santa Clara County, California.
w. Choice of law	Section 13.1	Except for the Federal Arbitration Act and related federal preemption requirements, California law applies, but no California franchise law applies unless jurisdictional, definitional and other requirements of the law are met independently of this franchise term. The provisions of Sections 9.3-9.4, are subject to the laws of the state where the claimed breach occurs.

You should refer to your state's specific addendum attached to this Disclosure Document for exceptions to this ITEM 17.

ITEM 18. PUBLIC FIGURES

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

ITEM 19. FINANCIAL PERFORMANCE REPRESENTATIONS

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

information provided in this ITEM 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Ms. Yen Le, 660 E. Gish Road, San Jose, California 95112, (800) 640-8880, the Federal Trade Commission and the appropriate state regulatory agencies.

ITEM 20. OUTLETS AND FRANCHISEE INFORMATION

Table No. 1

SYSTEMWIDE OUTLET SUMMARY FOR YEARS 2020 TO 2022				
Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2020	37	39	+2
	2021	39	39	0
	2022	39	46	+7
Company-Owned	2020	9	9	0
	2021	9	9	0
	2022	9	5	-4
Total Outlets	2020	46	48	+2
	2021	48	48	0
	2022	48	51	+3

Table No. 2

TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS (OTHER THAN THE FRANCHISOR) FOR YEARS 2020 TO 2022		
State	Year	Number of Transfers
California	2020	2
	2021	3
	2022	5
Texas	2020	0
	2021	0
	2022	1
Total	2020	2
	2021	3
	2022	6

Table No. 3

STATUS OF FRANCHISE OUTLETS FOR YEARS 2020 TO 2022								
State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
Arizona	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
California	2020	27	1	0	0	0	0	28
	2021	28	1	0	0	0	1	28
	2022	28	5	0	0	0	0	33
Colorado	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
	2022	0	2	0	0	0	0	2
Nevada	2020	3	0	0	0	0	0	3
	2021	3	0	0	0	0	0	3
	2022	3	0	0	0	0	0	3
Oklahoma	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Oregon	2020	1	0	0	0	0	0	1
	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
Texas	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
Virginia	2020	1	1	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
Total	2020	37	2	0	0	0	0	39
	2021	39	1	0	0	0	1	39
	2022	39	7	0	0	0	0	46

Exhibit G contains a list of our current franchisees and the names and last known addresses and telephone numbers of every franchisee who has had an outlet terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business under a franchise agreement during the most recently completed fiscal year or who have not communicated with us within 10 weeks of the Disclosure Document issuance date. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise System.

* One of these franchises is owned and operated by a company in which some of our officers have ownership interests. Refer to Exhibit G for additional information.

Table No. 4

STATUS OF COMPANY-OWNED OUTLETS* FOR YEARS 2020 TO 2022							
State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
California	2020	9	0	0	0	0	9
	2021	9	0	0	0	0	9
	2022	9	0	0	2	2	5
Total	2020	9	0	0	0	0	9
	2021	9	0	0	0	0	9
	2022	9	0	0	2	2	5

* The “company-owned” units refer to our affiliate’s Lee’s Sandwiches locations. Exhibit G contains a list of these locations.

Table No. 5

PROJECTED OPENINGS AS OF DECEMBER 31, 2022			
State	Franchise Agreements Signed But Outlet Not Yet Opened	Projected New Franchised Outlet In The Next Fiscal Year	Projected New Company-Owned Outlet in the Next Fiscal Year
California	2	2	0
Georgia	1	1	0
Total	3	3	0

As of December 31, 2022, we have 3 Franchise Agreements signed for outlets not yet open:

J & J Inc.
Fresno, CA
Name: Vinh Ly
Phone: (559) 288-2503
Email: vin10ly@yahoo.com

JTY Investment LLC.
3505 Van Buren Blvd., Ste. #107, Riverside, CA 92503
Name: Sopheak Yoeun
Email: jayyos@yahoo.com

T&T Enterprise, LLC.
3061 Day Rd. Suite #107, Duluth, GA 30096
Name: Tai Ngoc Cao & Tuan Truong
Phone: 404-580-6221 / 678-900-9244
Email: tuantruong88@yahoo.com

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with Lee’s Sandwiches International, Inc. In the last three years, some franchisees have signed confidentiality clauses. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

Currently, we have no trademark-specific franchisee organization associated with the franchise system being offered.

ITEM 21. **FINANCIAL STATEMENTS**

Attached as Exhibit F are our audited financial statements for the years ending December 31, 2020, December 31, 2021 and December 31, 2022. Our fiscal year end is December 31.

ITEM 22. **CONTRACTS**

The Lee's Sandwiches International, Inc. Franchise Agreement (with exhibits) is attached to this Disclosure Document as Exhibit C.

The Lee's Sandwiches International, Inc. Area Development Agreement (with exhibits) is attached to this Disclosure Document as Exhibit E.

The Lee's Sandwiches International, Inc. General Release (Sample) is attached to the Franchise Agreement as Exhibit 1.

The Lee's Sandwiches International, Inc. Nondisclosure and Non-Competition Agreement is attached to the Franchise Agreement as Exhibit 2-A.

The Lee's Sandwiches International, Inc. Nondisclosure and Non-Competition Agreement (for California Franchisees Only) is attached to the Franchise Agreement as Exhibit 2-B.

The Lee's Sandwiches International, Inc. Unlimited Guaranty and Assumption of Obligations is attached to the Franchise Agreement as Exhibit 3.

The Lee's Sandwiches International, Inc. Collateral Assignment of Lease is attached to the Franchise Agreement as Exhibit 5.

The Lee's Sandwiches International, Inc. Franchisee Disclosure Questionnaire is attached to this Disclosure Document as Exhibit H.

The Lee's Sandwiches International, Inc. Renewal Addendum to the Franchise Agreement is attached to this Disclosure Document as Exhibit J.

We provide no other contracts or agreements for your signature.

ITEM 23. **RECEIPTS**

Our copy and your copy of the Franchise Disclosure Document Receipts are located on the last 2 pages of this Disclosure Document.

EXHIBIT A TO THE DISCLOSURE DOCUMENT

LIST OF STATE ADMINISTRATORS

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

California

Department of Financial Protection
and Innovation
One Sansome Street, Suite 600
San Francisco, California 94104

Department of Financial Protection
and Innovation
320 W. 4th Street, Suite 750
Los Angeles, California 90013

Department of Financial Protection
and Innovation
2101 Arena Boulevard
Sacramento, California 95834
(866) 275-2677 Toll Free

Connecticut

Connecticut Banking Commissioner
Department of Banking
Securities & Business Investments Division
260 Constitution Plaza
Hartford, Connecticut 06103
(860) 240-8299

Florida

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

Hawaii

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

Illinois

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

Indiana

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

Lee's Sandwiches International, Inc.
Franchise Disclosure Document
4.2023

Kentucky

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

Maine

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

Maryland

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

Michigan

Department of the Attorney General
Consumer Protection Division, Franchise Unit
525 Ottawa Street
G. Mennen Williams Building, 1st Floor
Lansing, Michigan 48933

Minnesota

Minnesota Department of Commerce
Commissioner of Commerce
85 7th Place East, Suite 280
St. Paul, Minnesota 55101
(651) 539-1500

Nebraska

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

New York

NYS Department of Law
Investor Protection Bureau
28 Liberty Street, 21st Floor
New York, New York 10005
(212) 416-8222

EXHIBIT A TO THE DISCLOSURE DOCUMENT (continued)

North Carolina

Secretary of State
Securities Division
Old Revenue Complex
2 South Salisbury Street
Raleigh, North Carolina 27601

North Dakota

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

Rhode Island

Director, Department of Business Regulation
John O. Pastore Complex
1511 Pontiac Avenue
Building 69, First Floor
Cranston, Rhode Island 02920

South Carolina

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

South Dakota

Division of Insurance
Securities Regulation
124 S. Euclid, Suite 104
Pierre, South Dakota 57501

Texas

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

Utah

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

Virginia

State Corporation Commission
Division of Securities and Retail Franchising
Tyler Building, 9th Floor
1300 East Main Street
Richmond, Virginia 23219
(804) 371-9051

Washington

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

Wisconsin

Division of Securities
Department of Financial Institutions
4822 Madison Yards Way, North Tower
Madison, Wisconsin 53705

EXHIBIT B TO THE DISCLOSURE DOCUMENT

LIST OF STATE AGENTS FOR SERVICE OF PROCESS

The Franchisor has not appointed an agent identified below unless it is registered in that state, as noted on Exhibit L to this document.

California

Commissioner
Department of Financial Protection
and Innovation
One Sansome Street, Suite 600
San Francisco, California 94104

Department of Financial Protection
and Innovation
320 W. 4th Street, Suite 750
Los Angeles, California 90013

Department of Financial Protection
and Innovation
2101 Arena Boulevard
Sacramento, California 95834
(866) 275-2677

Connecticut

Connecticut Banking Commissioner
Department of Banking
Securities & Business Investments Division
260 Constitution Plaza
Hartford, Connecticut 06103
(860) 240-8299

Hawaii

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

Illinois

Illinois Attorney General
500 South Second Street
Springfield, Illinois 62706

Indiana

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

Maryland

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

Michigan

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

Lansing, Michigan 48909

Minnesota

Minnesota Department of Commerce
Commissioner of Commerce
85 7th Place East, Suite 280
St. Paul, Minnesota 55101

New York

Attention: New York Secretary of State
New York Dept. of State
One Commercial Plaza
99 Washington Avenue, 6th Floor
Albany, New York 12231-0001
(518) 473-2492

North Dakota

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

Rhode Island

Director, Department of Business Regulation
John O. Pastore Complex
1511 Pontiac Avenue
Building 69, First Floor
Cranston, Rhode Island 02920

South Dakota

Division of Insurance
Securities Regulation
124 S. Euclid, Suite 104
Pierre, South Dakota 57501

Virginia

Clerk, State Corporation Commission
Tyler Building, 1st Floor
1300 East Main Street
Richmond, Virginia 23219
(804) 371-9733

Washington

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

Wisconsin

Commissioner of Securities
4822 Madison Yards Way, North Tower
Madison, Wisconsin 53705

LEE'S SANDWICHES INTERNATIONAL, INC.

FRANCHISE AGREEMENT

EXHIBIT C TO THE DISCLOSURE DOCUMENT

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
1. DEFINITIONS.....	2
2. GRANT OF FRANCHISE; APPROVED LOCATION	6
2.1 Grant.....	6
2.2 Approved Location.....	6
2.3 Approved Location Not Determined.....	6
2.4 Sub-franchising	7
2.5 Protected Territory	7
2.6 Map and Description of Protected Territory	8
2.7 Franchisor's Rights	8
3. FEES	9
3.1 Franchise Fee	9
3.2 Weekly Royalty Fee.....	10
3.3 Taxes	10
3.4 Electronic Transfer.....	10
3.5 Late Fees	10
3.6 Application of Payments	11
4. TERM AND RENEWAL	11
4.1 Initial Term.....	11
4.2 Successor Terms.....	11
5. APPROVED LOCATION	12
5.1 Selection of Site	12
5.2 Failure to Select Site	13
5.3 Lease of Approved Location.....	13
5.4 Development of Approved Location.....	14
5.5 Failure to Develop Approved Location.....	15
5.6 Opening.....	15
5.7 Failure to Open.....	16
5.8 Use of Approved Location	16
5.9 Relocation	16
6. PROPRIETARY MARKS.....	17
6.1 Ownership	17
6.2 Limitations on Use	17
6.3 Notification of Infringements and Claims.....	17
6.4 Indemnification for Use of Marks.....	18
6.5 Discontinuance of Use	18
6.6 Right to Inspect	18
6.7 Franchisor's Sole Right to Domain Name	18
7. TRADE SECRETS AND OTHER CONFIDENTIAL INFORMATION	19
7.1 Confidentiality of Trade Secrets and Other Confidential Information.....	19
7.2 Additional Developments.....	19
7.3 Exclusive Relationship.....	19

TABLE OF CONTENTS (continued)

<u>SECTION</u>	<u>PAGE</u>
7.4 Nondisclosure and Non-Competition Agreements with Certain Individuals.....	20
7.5 Reasonableness of Restrictions	20
8. TRAINING AND ASSISTANCE	20
8.1 Initial Training	20
8.2 Opening Assistance.....	21
8.3 Failure to Complete Initial Training Program.....	21
8.4 New Designated Owner	21
8.5 Ongoing Training.....	21
9. CONFIDENTIAL OPERATIONS MANUAL	21
9.1 Loan by Franchisor	21
9.2 Revisions.....	22
9.3 Confidentiality.....	22
10. FRANCHISE SYSTEM.....	23
10.1 Uniformity.....	23
10.2 Modification of the System.....	23
10.3 Variance	23
11. ADVERTISING AND PROMOTIONAL ACTIVITIES	23
11.1 Grand Opening Advertising	23
11.2 Local Advertising.....	24
11.3 Marketing Fund.....	25
11.4 Cooperative Advertising	26
11.5 Internet Advertising	26
11.6 Telephone Directory Advertising.....	27
12. ACCOUNTING, RECORDS AND REPORTING OBLIGATIONS	27
12.1 Records.....	27
12.2 Gross Sales Reports.....	27
12.3 Financial Statements	27
12.4 Other Reports	28
12.5 Computer/Point-of-Sale System.....	28
12.6 Video/Computer Surveillance System	28
12.7 Right to Inspect	28
12.8 Release of Records.....	28
13. STANDARDS OF OPERATION.....	29
13.1 Authorized Products, Services and Suppliers	29
13.2 Lee*s Sandwiches Products	30
13.3 Appearance and Condition of the Franchised Business	31
13.4 Ownership and Management.....	31
13.5 Personnel.....	31
13.6 Days of Operation	31
13.7 Contributions and Donations.....	31
13.8 Licenses and Permits.....	31
13.9 Notification of Proceedings.....	32
13.10 Compliance with Good Business Practices.....	32

TABLE OF CONTENTS (continued)

<u>SECTION</u>	<u>PAGE</u>
13.11 Uniforms	33
13.12 Vending Machines	33
13.13 Credit Cards	33
13.14 E-Mail	33
13.15 Best Efforts.....	33
14. FRANCHISOR’S ADDITIONAL OPERATIONS ASSISTANCE.....	33
14.1 General Advice and Guidance.....	33
14.2 Periodic Visits	34
15. INSURANCE.....	34
15.1 Types and Amounts of Coverage	34
15.2 Future Increases	35
15.3 Carrier Standards.....	35
15.4 Evidence of Coverage	35
15.5 Failure to Maintain Coverage.....	35
16. DEFAULT AND TERMINATION	36
16.1 Termination by Franchisee.....	36
16.2 Termination by Franchisor	36
16.3 Reinstatement and Extension	38
16.4 Right of Franchisor to Discontinue Services to Franchisee	38
17. GRANT OF SECURITY INTEREST AND RIGHTS THEREUNDER; WAIVERS	39
17.1 Grant of Security Interest	39
17.2 Waiver of Rights and Defenses.....	39
18. RIGHTS AND DUTIES UPON EXPIRATION OR TERMINATION	41
18.1 Actions to be Taken	41
18.2 Post-Termination Covenant Not to Compete	42
18.3 Unfair Competition	43
18.4 Franchisor’s Option to Purchase Certain Business Assets.....	43
18.5 Survival of Certain Provisions	43
19. TRANSFERABILITY OF INTEREST	44
19.1 Transfer by Franchisor	44
19.2 Transfer by Franchisee to a Third Party.....	44
19.3 Transfer to a Controlled Entity.....	46
19.4 Franchisor’s Disclosure to Transferee.....	47
19.5 For-Sale Advertising	47
19.6 Transfer by Death or Incapacity	47
20. RIGHT OF FIRST REFUSAL.....	47
20.1 Submission of Offer	47
20.2 Franchisor’s Right to Purchase	48
20.3 Non-Exercise of Right of First Refusal.....	48
21. BENEFICIAL OWNERS OF FRANCHISEE.....	48
22. RELATIONSHIP AND INDEMNIFICATION	48
22.1 Relationship.....	48
22.2 Standard of Care.....	49

TABLE OF CONTENTS (continued)

<u>SECTION</u>	<u>PAGE</u>
22.3 Indemnification	49
22.4 Right to Retain Counsel	50
23. GENERAL CONDITIONS AND PROVISIONS	50
23.1 No Waiver	50
23.2 Injunctive Relief	50
23.3 Notices	50
23.4 Cost of Enforcement or Defense	51
23.5 Unlimited Guaranty and Assumption of Obligations.....	51
23.6 Approvals	51
23.7 Entire Agreement	51
23.8 Severability and Modification.....	52
23.9 Construction	52
23.10 Force Majeure	52
23.11 Timing	52
23.12 Withholding Payments	52
23.13 Further Assurances.....	53
23.14 Third-Party Beneficiaries	53
23.15 Multiple Originals	53
24. DISPUTE RESOLUTION	53
24.1 Choice of Law	53
24.2 Consent to Jurisdiction.....	53
24.3 Cumulative Rights and Remedies	54
24.4 Limitations of Claims.....	54
24.5 Limitation of Damages.....	54
24.6 Waiver of Jury Trial and Class Actions	54
24.7 Arbitration.....	54
25. ACKNOWLEDGMENTS	55
25.1 Receipt of this Agreement and the Franchise Disclosure Document.....	55
25.2 Consultation by Franchisee	55
25.3 True and Accurate Information.....	55
25.4 No Violation of Other Agreements	55

EXHIBITS

1. GENERAL RELEASE (SAMPLE)
- 2-A. NONDISCLOSURE AND NON-COMPETITION AGREEMENT (for Non-California Franchises)
- 2-B. NONDISCLOSURE AND NON-COMPETITION AGREEMENT (for California Franchises)
3. UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATIONS
4. HOLDERS OF LEGAL OR BENEFICIAL INTEREST IN FRANCHISEE; OFFICERS;
DIRECTORS
5. COLLATERAL ASSIGNMENT OF LEASE
6. MULTI-STATE ADDENDA TO THE FRANCHISE AGREEMENT

LEE'S SANDWICHES INTERNATIONAL, INC.

FRANCHISE AGREEMENT

This Franchise Agreement made this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc., a California corporation, having its principal place of business at 660 E. Gish Road, San Jose, California 95112 ("Franchisor"), and _____, an individual/partnership/corporation/limited liability company established in the State of _____ and whose principal address is _____ ("Franchisee").

WITNESSETH:

WHEREAS, Franchisor and its Affiliates* have developed, and are in the process of further developing, a System identified by the service mark and trademark "Lee's Sandwiches®" and relating to the establishment and operation of businesses which produce and distribute baguettes and croissants, as well as businesses which offer for retail sale freshly baked baguettes and croissants, a variety of Asian and European sub-style sandwiches and other complimenting menu items, including beverages and desserts in a variety of retail settings, and referred to collectively as "Lee's Sandwiches Businesses;" and

WHEREAS, a Lee's Sandwiches Business can be established either as a "Lee's Sandwiches Baguette Factory Production Unit", a Lee's Sandwiches Production Unit," or a "Lee's Sandwiches Non-Production Unit", collectively referred to as the "Franchised Business;" and

WHEREAS, Franchisor and its Affiliates have acquired or obtained the right to certain bakery flour, dough, deli meats, desserts and other items as specified in the Confidential Operations Manual, which are especially suited for use in the Franchised Business ("Lee's Sandwiches Products") and which are supplied by Franchisor or its Affiliates to Franchisee and other franchisees on a for-profit basis; and

WHEREAS, in addition to the Lee's Sandwiches Products, the service mark and trademark "Lee's Sandwiches®" and certain other Marks, the distinguishing characteristics of the System include: uniform standards and procedures for maintaining consistent quality and the positive image of the brand; recipes; food preparation and presentation techniques; procedures and strategies for marketing, advertising and promotion; customer service and development techniques; distinctive interior and exterior design, layout, signage and décor; other strategies, techniques and Trade Secrets and other Confidential Information; and the Confidential Operations Manual; and

WHEREAS, Franchisor grants to qualified persons and business entities the right to independently own and operate a Lee's Sandwiches Business using the System and the Marks; and

WHEREAS, Franchisee desires to operate a Lee's Sandwiches Business, has applied for the Franchise and such application has been approved by Franchisor in reliance upon all of the representations made herein and therein; and

*Capitalized terms not otherwise defined are defined in Section 1.

WHEREAS, Franchisee understands and acknowledges the importance of Franchisor's high and uniform standards of quality, operations and service and the necessity of operating the Franchised Business in strict conformity with Franchisor's System.

NOW, THEREFORE, Franchisor and Franchisee, intending to be legally bound, agree as follows:

1. DEFINITIONS

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

"Affiliate(s)" means any business entity that controls, is controlled by, or is under common control with Franchisor;

"Agreement" means this agreement entitled "Lee's Sandwiches International, Inc. Franchise Agreement" as it and all instruments supplemental, modified or amended in writing hereto or in amendment or confirmation hereof;

"Approved Location" means the site for the operation of the Franchised Business selected by Franchisee and approved in writing by Franchisor;

"Approved Supplier(s)" has the meaning given to such term in Section 13.1;

"Collateral" means all of Franchisee's rights, title and interest in each of the following: (i) all proceeds of the Franchised Business; (ii) all furniture, fixtures and equipment now or hereafter installed in the Approved Location or used by Franchisee in the management of the business operations at the Approved Location; (iii) all inventory purchased by Franchisee; (iv) proceeds of insurance set forth in this Agreement and (v) any lease of real or personal property now or hereafter located at the Approved Location, or used by Franchisee in the management of the business operations at the Approved Location;

"Competitive Business" means any business that offers or provides for (or grants franchises or licenses to others to operate a business that offers or provides for) the production, distribution or retail sale of baguettes or croissants; the retail sale of Asian and/or European sub-style sandwiches; or the retail sale of specialty coffee, smoothies, ice cream, or Delimanjoo cakes; provided that revenues received in connection with one or more of any such food or beverage items generally represent twenty percent (20%) or more of such business's monthly gross sales. The term "Competitive Business" shall not apply to (a) any business operated by Franchisee under a Franchise Agreement with Franchisor, or (b) any business operated by a publicly-held entity in which Franchisee owns less than a five percent (5%) legal or beneficial interest;

"Confidential Information" means information used in or related to Lee's Sandwiches Businesses and not commonly known by or available to the public, including, without limitation, Franchisor's Trade Secrets. Confidential Information shall not include, however, any information that: (a) is now or subsequently becomes generally available to the public through no fault of Franchisee; (b) Franchisee can demonstrate was rightfully in its possession, without obligation of nondisclosure, prior to disclosure pursuant to this Agreement; (c) is independently developed without the use of any Confidential Information; or (d) is rightfully obtained from a third party who has the right, without obligation of nondisclosure, to transfer or disclose such information;

"Confidential Operations Manual" means a hard copy of, or electronic, on-line access to, the Lee's Sandwiches Confidential Operations Manual, which may consist of one (1) or more separate manuals and other

Lee's Sandwiches International, Inc.

Franchise Agreement

4.2023

materials as designated by Franchisor, which can be supplemented, changed, deleted or otherwise revised by Franchisor from time to time, and which contain or describe mandatory and suggested specifications, standards, specifications and procedures that Franchisor develops for a Lee*s Sandwiches Business. The Confidential Operations Manual can include, but is not limited to, books, computer programs, password-protected portions of an Internet site, pamphlets, memoranda and other publications prepared by or on behalf of Franchisor. For avoidance of doubt, whenever reference is made in this Agreement to Franchisee's obligation to comply with the Confidential Operations Manual the reference is limited in its application to the mandatory provisions of the Confidential Operations Manual;

"Cooperative Advertising" means the combined advertising program of two (2) or more franchisees established within a common market that Franchisor may require for Lee*s Sandwiches Businesses within a particular region;

"Designated Area" has the meaning given to such term in Section 2.3;

"Designated Owner" if Franchisee is a legal business entity, (such as a corporation, limited liability company or other legal business entity), "Designated Owner" means the individual holder of a legal or beneficial interest in Franchisee, owning at least 5% or greater interest in the Franchised Business, designated by Franchisee as having primary responsibility for managing the day-to-day affairs of the Franchised Business, and if Franchisee is an individual and not a business entity, the Designated Owner shall be Franchisee;

"Effective Date" means the date set forth in the introductory paragraph of this Agreement;

"Electronic Depository Transfer Account" means an account established at a national banking institution approved by Franchisor and providing Franchisor with access to electronically withdraw any funds due Franchisor;

"Franchise" means the right granted to Franchisee by Franchisor to use the System and the Marks;

"Franchise Fee" has the meaning given to such term in Section 3.1;

"Franchised Business" means the Lee*s Sandwiches Business to be established and operated by Franchisee pursuant to this Agreement;

"Franchisee" means the individual(s) or entity defined as "Franchisee" in the introductory paragraph of this Agreement and, if Franchisee is an entity, all persons who have an ownership interest in the entity;

"Franchisee's Obligations" means the timely payment by Franchisee of all Indebtedness and the faithful performance of all of Franchisee's duties, covenants, promises and performance, the failure of which would be a default under this Agreement;

"Franchisor" means Lee's Sandwiches International, Inc.;

"Franchisor Indemnitees" means "Indemnified Parties, as defined in in Section 22.3;

"GAAP" means the generally accepted accounting principles consistently applied in the United States of America, and the standards, conventions and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statements;

“Grand Opening Advertising” has the meaning given to such term in Section 11.1;

“Gross Sales” means the aggregate of all revenue from the sale of products and services from all sources in connection with the Franchised Business and/or all revenue from any Competitive Business (as defined in this Agreement) all revenue from any Competitive Business (as defined in this Agreement), whether paid by check, cash, credit or otherwise including, without limitation, all proceeds from any business interruption insurance, but excluding (a) all refunds made in good faith, (b) any sales and equivalent taxes that are collected for or on behalf of any governmental taxing authority and paid thereto, (c) the value of any allowance issued or granted to any customer thereof that is credited in full or partial satisfaction of the price of any products and services offered in connection with such business, and (d) any rebate received by Franchisee from a manufacturer or supplier in accordance with the terms of this Agreement;

“Gross Sales Reports” has the meaning given to such term in Section 12.2;

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

“Indebtedness” means all of Franchisee’s obligations under this Agreement, including each of the following: (i) Franchise Fee; (ii) Marketing Fund Contributions; (iii) Royalty Fee; and (iv) Trade Debt Owed to Franchisor or Affiliates;

“Internet” means any one (1) or more local or global interactive communications media that is now available, or that may become available, including sites and domain names on the World Wide Web;

“LEE’S SANDWICHES® Baguette Factory Production Unit” means the right granted to Franchisee by Franchisor, pursuant to the parties’ election in Section 2.1 hereof, to use the System and the Marks to establish and own a Franchised Business which operates as a large restaurant and the flagship facility of the four (4) Lee’s Sandwiches Franchises, from premier sites with high visibility, consisting of approximately five thousand (5,000) to ten thousand (10,000) square feet of restaurant facility space, and offers the full menu and line of Lee’s Sandwiches packaged products, as well as produces the dough for baguettes supplying the needs of other Lee’s Sandwiches Businesses and Franchises;

“LEE’S SANDWICHES® Non-Production Unit” means the right granted to Franchisee by Franchisor, pursuant to the parties’ election in Section 2.1 hereof, to use the System and the Marks to establish and own a Franchised Business which operates as a sit-down restaurant facility ranging in size from approximately five hundred (500) to three thousand (3,000) square feet, will typically be located within a strip mall or small, freestanding location, or shopping mall or mall location typically be located within a food court area with common seating and offers the full line of Lee’s Sandwiches menu items;

“LEE’S SANDWICHES® Production Unit” means the right granted to Franchisee by Franchisor, pursuant to the parties’ election in Section 2.1 hereof, to use the System and the Marks to establish and own a Franchised Business which operates as a large restaurant, from premier sites with high visibility, consisting of approximately two thousand five hundred (2,500) to five thousand (5,000) square feet of restaurant facility space, and offers the full menu and line of Lee’s Sandwiches packaged products, as well as produces the dough for baguettes, supplying the needs of other Lee’s Sandwiches Businesses and Franchises;

“Lee’s Sandwiches Products” has the meaning given to such term in the Recitals preceding this Section;

“Local Advertising” has the meaning given to such term in Section 11.2;

“Marketing Fund” has the meaning given to such term in Section 11.3;

“Marketing Fund Contribution” has the meaning given to such term in Section 11.3;

“Marks” means the service mark and trademark “Lee’s Sandwiches®” and such other trade names, trademarks, service marks, trade dress, designs, graphics, logos, emblems, insignia, fascia, slogans, drawings and other commercial symbols as Franchisor may designate to be used in connection with Lee’s Sandwiches Businesses;

“Obligor” means Franchisee and its guarantors, predecessors or successors in interest, licensees, or sub-lessee of the Franchisee’s obligations under this Agreement, including the Indebtedness.

“Protected Territory” has the meaning given to such term in Section 2.5;

“Royalty Fee” has the meaning given to such term in Section 3.2;

“System” means the uniform standards, methods, procedures and specifications developed by Franchisor and as may be added to, changed, modified, withdrawn or otherwise revised by Franchisor for the operation of Lee’s Sandwiches Businesses. Neither the System nor any Confidential Operations Manual shall mandate personnel policies or procedures for Franchisee to establish in Franchisee’s Lee’s Sandwiches Business, including those relating to hiring, firing, discipline, wages, scheduling and other terms and conditions of employment for Franchisee’s employees and contractors. Franchisee is solely responsible for establishing such policies and procedures, for managing and supervising Franchisee’s staff and for compliance with wage and hours laws, workers’ compensation laws and other laws and regulations pertaining to Franchisee’s employees and their employment and benefits;

“Trade Secrets” means information in any form (including, but not limited to, technical or non-technical data, formulas, recipes, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans, passwords, lists of actual or potential customers or suppliers) related to or used in Lee’s Sandwiches Businesses that is not commonly known by or available to the public and that information: (a) derives economic value, actual or potential, from not being generally known to, and not being readily ascertained by proper means by, other persons who can obtain economic value from its disclosure or use; and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy; and

“Trade Debt Owed to Franchisor or Affiliates” means all obligations owed to Franchisor or any Affiliate that arise out of goods or services provided to Franchisee by Franchisor or any Affiliate, but not including any obligations related to (i) Cooperative Advertising, or (ii) Royalty Fees.

2. GRANT OF FRANCHISE; APPROVED LOCATION

2.1 Grant

Franchisor hereby grants to Franchisee, and Franchisee undertakes and accepts, upon the terms and conditions herein contained, a revocable, limited license to operate one (1) Lee*s Sandwiches Business using the System and Marks which shall operate as a:

_____ Lee*s Sandwiches Baguette Factory Production Unit

or

_____ Lee*s Sandwiches Production Unit

or

_____ Lee*s Sandwiches Non-Production Unit

2.2 Approved Location

The street address (or detailed description of the premises) of the Approved Location is:

2.3 Approved Location Not Determined

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

2.4 Sub-franchising

Franchisee shall not sublicense the use of the System or Marks to any person or entity. Except as may be permitted pursuant to Section 19, Franchisee shall not grant any person or entity the right to perform any part of Franchisee's rights or obligations under this Agreement.

2.5 Protected Territory

So long as this Agreement is in force and effect and Franchisee is not in default under any of the terms hereof, and subject to Franchisor's reservation of rights as set forth in Section 2.7, Franchisor shall not license, establish, own or operate any other Lee's Sandwiches Businesses within a geographic area ("Protected Territory") surrounding the Franchised Business and depicted in the map in Section 2.6 below. For avoidance of doubt, Franchisor and its affiliates reserve the right to establish any kind of Lee's Sandwiches Business located in a "captive venue", including in a shopping mall or food court, within the Protected Territory of any Baguette Factory Production Unit, Production Unit or Non-Production Unit, as provided in Section 2.7.1, below. Franchisor and its affiliates also have the right to establish, franchise, own and operate Lee's Sandwiches Businesses anywhere outside of the Protected Territory, regardless of their proximity to Franchisee's Lee's Sandwiches Business location or the customers Franchisee serves. The Protected Territory may be defined by natural, physical and/or political boundaries, such as zip codes, city limits, county lines, waterways, highways, the exterior outline of the facility in which the Franchised Business is or is to be located (e.g., an airport terminal, shopping mall, etc.), mileage distances or other similar boundaries, as is determined for each Unit.

2.6 Map and Description of Protected Territory

2.6.1 The Protected Territory shall be defined as follows:

2.6.2 The map of the Protected Territory is:

2.7 Franchisor's Rights

Franchisee acknowledges that Franchisor and its affiliates expressly retain all rights and control with respect to the System and Marks, including the right to:

2.7.1 establish, own and operate, and license others to establish, own and operate, inside and outside of the Protected Territory of any Baguette Factory Production Unit, Production Unit or Non-Production Unit and any kind of Lee*s Sandwiches Businesses located in “captive venues”, which are sites located in conjunction with another business or enterprise having a distinct and separate purpose, such as, but not limited to, hospitals, universities, airports, health clubs, event facilities, grocery stores, kiosks, food courts, toll road plazas, gas stations, military bases, shopping malls, casinos, amusement and theme parks, and other such facilities;

2.7.2 establish, own and operate, and license others to establish, own and operate, mobile or temporary Lee*s Sandwiches Businesses inside and outside the Protected Territory, including, without limitation, food trucks and operations at fairs, sporting events and similar, short-term events;

2.7.3 establish, own and operate, and license others to establish, own and operate, businesses, whether using the Marks or not, different from Franchisee’s Lee*s Sandwiches Businesses, inside and outside the Protected Territory;

2.7.4 establish, own and operate, and license to others the right to establish, own and operate, other businesses under other systems using other proprietary marks at locations inside or outside of the Protected Territory;

2.7.5 purchase or otherwise acquire the assets or controlling ownership of one (1) or more businesses identical or similar to the Franchised Business (and/or acquire franchise, license and/or similar agreements for such businesses), some or all of which may be located anywhere, including within the Protected Territory. If Franchisor purchases or acquires franchises or licenses, Franchisor may, in its sole discretion, act as franchisor or licensor with respect to such franchisees or licensees wherever located, pursuant to the individual franchise or license agreement(s) between Franchisor and such franchisee(s) or licensee(s);

2.7.6 be acquired (regardless of the form of transaction) by any business, even if the other business operates, franchises and/or licenses Competitive Businesses within the Protected Territory;

2.7.7 use the Marks or other trademarks, service marks and commercial symbols in connection with sales to other restaurants, retail outlets and individual customers of any products and services, including those Franchisee is authorized to use in or sell from Lee*s Sandwiches Businesses;

2.7.8 use the Marks or other trademarks, service marks and commercial symbols in connection with sales through alternate channels of distribution, such as joint marketing with partner companies, direct mail, grocery stores and outlets and Internet sales, of any products and services, including those Franchisee is authorized to use in or sell from Lee*s Sandwiches Businesses, regardless of where the customer is located, and for a price that may be higher or lower than the price that Franchisee pays; and

2.7.9 engage in any activities not expressly forbidden by this Agreement.

3. FEES

3.1 Franchise Fee

Upon execution of this Agreement, Franchisee shall pay a fee (“Franchise Fee”) to Franchisor of _____ DOLLARS (\$_____). The Franchise Fee shall

be deemed fully earned upon execution of this Agreement and is non-refundable, except under certain conditions set forth under Sections 5.2, 5.5 and 8.3. The Franchise Fee is payment, in part, for expenses incurred by Franchisor in furnishing assistance and services to Franchisee as set forth in this Agreement and for costs incurred by Franchisor, including general sales and marketing expenses, training, legal, accounting and other professional fees.

3.2 Weekly Royalty Fee

On Tuesday of each week for so long as this Agreement shall be in effect, Franchisee shall pay to Franchisor without offset, credit or deduction of any nature, a weekly fee ("Royalty Fee") equal to six and nine-tenths percent (6.9%) of Gross Sales for the week ending the previous Saturday. Each weekly Royalty Fee shall accompany a Gross Sales Report, as required by Section 12.2, for the same period. Should Franchisor require Franchisee to pay Royalty Fees through electronic transfer as set forth in Section 3.4, then such reports shall instead be submitted to Franchisor via facsimile transmission, e-mail or intranet system, as Franchisor may specify.

3.3 Taxes

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

3.4 Electronic Transfer

Franchisor has the right to require all Royalty Fees, Marketing Fund Contributions, amounts due for purchases by Franchisee from Franchisor and other amounts due to Franchisor to be paid through an Electronic Depository Transfer Account. At Franchisor's request, Franchisee shall open and maintain an Electronic Depository Transfer Account, and shall provide Franchisor with continuous access to such account for the purpose of receiving any payments due to Franchisor. Every week, Franchisee shall make weekly deposits to the account sufficient to cover amounts owed to Franchisor prior to the date such amounts are due. Franchisee shall execute any documents Franchisor's or Franchisee's bank requires to establish and implement the Electronic Depository Transfer Account. Once established, Franchisee shall not close the Electronic Depository Transfer Account without Franchisor's written consent.

3.5 Late Fees

All Royalty Fees, Marketing Fund Contributions, amounts due for purchases by Franchisee from Franchisor and other amounts that are not received by Franchisor within five (5) days after the due date shall incur late fees at the rate of one and one-half percent (1.5%) per month (or the highest rate allowed by the law of the state where Franchisee is located, whichever is lower) from the date payment is due to the date payment is received by Franchisor. Franchisee shall pay Franchisor for all costs incurred by Franchisor in the collection of any unpaid and past due Royalty Fees, Marketing Fund Contributions or any other amounts due Franchisor, including reasonable accounting and legal fees. This Section shall not constitute an agreement by Franchisor to accept any payments after the due date or a commitment by Franchisor to extend credit to or otherwise finance Franchisee.

3.6 Application of Payments

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

4. TERM AND RENEWAL

4.1 Initial Term

Unless terminated sooner under Section 16, this Agreement shall be effective and binding for an initial term from the date of its execution as follows:

4.1.1 If the parties have elected under Section 2.1 that Franchisee shall have the right under this Agreement to establish and operate a single Lee*s Sandwiches Baguette Factory Production Unit or a single Lee*s Sandwiches Production Unit then the initial term is ten (10) years; or

4.1.2 If the parties have elected under Section 2.1 that Franchisee shall have the right under this Agreement to establish and operate a single Lee*s Sandwiches Non-Production Unit, then the initial term is five (5) years.

4.2 Successor Terms

4.2.1 Subject to the fulfillment of the conditions set forth in Section 4.2.2 below, Franchisee has the right to obtain a successor franchise at the expiration of the term of this Agreement for the following terms:

4.2.1.1 If the parties have elected under Section 2.1 that Franchisee shall have the right under this Agreement to operate a Lee*s Sandwiches Baguette Factory Production Unit or a Lee*s Sandwiches Production Unit, then Franchisee shall have the right to three (3) additional successive terms of five (5) years each for a total of twenty-five (25) years; or

4.2.1.2 If the parties have elected under Section 2.1 that Franchisee shall have the right under this Agreement to operate a Lee*s Sandwiches Non-Production Unit, then Franchisee shall have the right to three (3) additional successive terms of five (5) years each for a total of twenty (20) years.

4.2.2 Franchisee shall have the right to obtain a successor franchise provided that all of the following conditions have been fulfilled and remain true as of the last day of the initial term and each renewal term of this Agreement:

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

4.2.2.2 Franchisee has access to and, for the duration of the successor franchise, the right to remain in possession of the Approved Location, or a suitable substitute location

approved by Franchisor, which is in full compliance with Franchisor's then-current specifications and standards;

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

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

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

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

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

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

4.2.2.9 Franchisee has executed Franchisor's then current form of general release, releasing any and all claims against Franchisor, its Affiliates, and their respective officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities), except to the extent prohibited by applicable law.

5. APPROVED LOCATION

5.1 Selection of Site

If an Approved Location for the Franchised Business has not been determined as of the Effective Date, Franchisee shall promptly select a site for the Franchised Business and shall notify Franchisor of such selection. Franchisor shall evaluate the site and notify Franchisee of its approval or disapproval of the site within a reasonable time (usually thirty [30] days) of receiving notice of the site from Franchisee. If Franchisor approves of such selection, the site shall be designated as the Approved Location. If Franchisor does not approve of such selection, Franchisee shall select and notify Franchisor of new sites until Franchisor approves a site for the Franchised Business. Franchisor shall provide Franchisee with general guidelines to assist Franchisee in selecting a site suitable for the Approved Location. Franchisor has the right to approve or disapprove a proposed location based on such factors as it deems appropriate, including, without limitation, the condition of the premises, demographics of the surrounding area, proximity to other Lee's Sandwiches Businesses, proximity to Competitive Businesses,

lease requirements, traffic patterns, visibility, vehicular and pedestrian access, proximity to major roads, available parking and overall suitability. Franchisee shall not locate the Franchised Business on a selected site without the prior written approval of Franchisor. ***Franchisor does not represent that it, or any of its Affiliates, owners, employees or agents, have special expertise in selecting sites. Neither Franchisor's assistance nor approval is intended to indicate or indicates that the Franchised Business will be profitable or successful at the Approved Location. Franchisee is solely responsible for identifying the Approved Location.***

5.2 Failure to Select Site

Should Franchisee fail, within ninety (90) days after the Effective Date, to select a site for the Franchised Business that meets with Franchisor's approval, Franchisor has the right to terminate this Agreement. If this Agreement is terminated pursuant to this Section 5.2, Franchisor shall return to Franchisee fifty percent (50%) of the Franchise Fee paid by Franchisee upon Franchisor's receipt of a general release in Franchisor's then current form, releasing any and all claims against Franchisor, its Affiliates, and their respective officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities).

5.3 Lease of Approved Location

After the designation of the Approved Location (and if the site is to be leased or purchased), Franchisee shall execute a lease for, or a binding agreement to purchase, the Approved Location, the terms of which have previously reviewed by Franchisor, unless Franchisor permits otherwise in writing. Franchisor shall not unreasonably withhold its approval. ***Franchisor's review of a lease or purchase agreement, or any advice or recommendation offered by Franchisor, shall not constitute a representation or guarantee that Franchisee will succeed at the Approved Location nor constitute an expression of Franchisor's opinion regarding the terms of such lease or purchase agreement. Franchisee acknowledges and agrees that Franchisee shall solely rely on its review of any such lease or purchase agreement.*** Franchisor shall be entitled to require that nothing therein contained is contradictory to, or likely to interfere with, Franchisor's rights or Franchisee's duties under this Agreement. Franchisee shall take all actions necessary to maintain the lease, if any, of the Approved Location while this Agreement is in effect. Any default for which the lease may be terminated shall also be deemed a default hereunder and the time to cure the same shall expire when the lease is terminated. Franchisor, at its option, can require that the lease contain some or all of the following provisions:

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

5.3.2 a provision requiring the lessor to provide Franchisor with a copy of any written notice of deficiency sent by the lessor to Franchisee, and granting to Franchisor the right (but not the obligation) to cure any deficiency under the lease should Franchisee fail to do so, and that Franchisor shall have at least fifteen (15) days after the expiration of the cure period within which to cure Franchisee's default if Franchisor chooses to do so;

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

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

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

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

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

5.3.8 a provision stating that upon default of this Agreement, Franchisor or its nominee has the right, but not the obligation, to take possession of the Approved Location and operate the Franchised Business and stating that notwithstanding Franchisor's (or the nominee's) possession, the lessor agrees that during all times prior to an assignment of the lease to Franchisor (or its designee), Franchisee shall be solely responsible for all obligations, debts and payments under the lease incurred prior to or during such possession and prior to such assignment. Franchisor has the right to require the execution of a Collateral Assignment of Lease in the form attached as Exhibit 5 to this Agreement, or as otherwise approved by Franchisor in writing; and

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

5.4 Development of Approved Location

Franchisor shall make available to Franchisee, at no charge to Franchisee, specifications for the development of a Lee's Sandwiches Business, including exterior and interior design and layout, fixtures, equipment, décor and signs. Such specifications are subject to alteration as Franchisor deems necessary. Franchisee shall cause the Approved Location to be developed, equipped and improved in accordance with such specifications within one hundred eighty (180) days after the Effective Date. In connection with the development of the Approved Location, Franchisee shall:

5.4.1 employ an approved, competent, licensed architect or engineer to prepare, for Franchisor's approval, preliminary specifications for improvement of the Approved Location adapted from the specifications furnished by Franchisor;

5.4.2 obtain all zoning classifications and clearances which may be required by state and local laws, ordinances or regulations, and submit to Franchisor, for Franchisor's approval, final plans for construction based upon the preliminary plans and specifications;

5.4.3 obtain all building, utility, sign, health, and business permits and licenses, and any other permits and licenses required for the build-out and operation of the Franchised Business and certify in writing and provide evidence to Franchisor that all such permits have been obtained;

5.4.4 employ a qualified, licensed general contractor approved by Franchisor to complete construction of all required improvements to the Approved Location;

5.4.5 purchase all supplies and inventory necessary for the operation of the Franchised Business;

5.4.6 purchase and install all equipment, signs, furniture and fixtures, including any point-of-sale and computer equipment, required for the operation of the Franchised Business; and

5.4.7 establish broadband or high-speed Internet access and obtain at least two (2) telephone numbers, one (1) facsimile number and one (1) e-mail address solely dedicated to the Franchised Business.

5.5 Failure to Develop Approved Location

Should Franchisee fail to develop the Approved Location for a Lee's Sandwiches Business within one hundred eighty (180) days after the Effective Date, Franchisor has the right to terminate this Agreement. If this Agreement is terminated pursuant to this Section 5.5, Franchisor shall return to Franchisee fifty percent (50%) of the Franchise Fee paid by Franchisee, upon Franchisor's receipt of a general release in Franchisor's then current form, releasing any and all claims against Franchisor, its Affiliates, and their respective officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities).

5.6 Opening

Before opening the Franchised Business and commencing business, Franchisee must:

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

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

5.6.3 complete initial training to the satisfaction of Franchisor;

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

5.6.5 purchase any supplies or inventory necessary for the operation of the Franchised business not previously purchased pursuant to Section 5.4.5, such as perishable food and beverage items;

5.6.6 obtain all necessary permits and licenses and subscribe to any services that Franchisor may require (including but not limited to a point-of-sale support service);

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

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

5.6.9 pay in full all amounts due to Franchisor.

Franchisee shall comply with these conditions and be prepared to open and continuously operate the Franchised Business within two hundred forty (240) days after the Effective Date. Time is of the essence.

5.7 Failure to Open

Should Franchisee fail to commence operations of the Approved Location for the Franchised Business within two hundred forty (240) days after the Effective Date, Franchisor has the right to terminate this Agreement. If this Agreement is terminated pursuant to this Section 5.7, Franchisor shall retain the entire Franchise Fee paid by Franchisee. The Franchise Fee retained shall be specifically understood and agreed by the parties to be in consideration of the services provided, time expended, work performed, and other efforts of Franchisor up to the date of Franchisee's failure to timely commence operations of the Franchised Business and shall not be construed as nor considered to be a penalty.

5.8 Use of Approved Location

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

5.9 Relocation

Franchisee shall not relocate the Franchised Business without the prior written consent of Franchisor. If the lease for the Approved Location expires or terminates through no fault of Franchisee or if the Franchised Business's premises is destroyed, condemned or otherwise rendered unusable, Franchisee may request the right to relocate the Franchised Business either permanently or temporarily as appropriate under the circumstances and Franchisor shall not unreasonably withhold its consent to such relocation. Should Franchisee desire to relocate the Franchised Business for any other reason, Franchisee shall request the right and Franchisor may approve or disapprove such request. Any relocation of the Franchised Business shall be at Franchisee's sole expense, and shall proceed in accordance with the requirements set forth in Sections 5.1 through 5.7. Franchisor has the right to charge Franchisee for any costs incurred by Franchisor in providing assistance to Franchisee, including, but not limited to, legal and accounting fees. Notwithstanding the foregoing, Franchisor has no obligation to provide relocation assistance. If Franchisor and Franchisee do not agree upon a substitute site within ninety (90) days after the lease expires or is terminated or the Approved Location is rendered unusable, this Agreement shall terminate as provided in Section 16.2.1.8.

6. PROPRIETARY MARKS

6.1 Ownership

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

6.2 Limitations on Use

Franchisee shall not use any Mark or portion of any Mark as part of any business entity name. Franchisee shall not use any Mark in connection with the sale of any unauthorized product or service or in any other manner not expressly authorized in writing by Franchisor. Franchisee shall give such notices of trademark and service mark registrations as Franchisor specifies and obtain such fictitious or assumed name registrations as may be required under applicable law to do business as a Franchised Business. Franchisee shall not register or seek to register as a trademark or service mark, either with the United States Patent and Trademark Office or any state or foreign country, any of the Marks or a trademark or service mark that is confusingly similar to any Mark licensed to Franchisee. Franchisee shall include on its letterhead, forms, cards, marketing materials and other such materials, and shall display at the Approved Location, a prominent notice stating that the Franchised Business is an "Independently Owned and Operated Lee's Sandwiches Franchise" of Franchisee. Franchisee shall clearly advise all persons of this fact and shall not hold itself out as an agent of Franchisor or any Franchisor affiliate. Franchisee shall use only its own corporate name, and not Franchisor's name or any of the Marks in any form, on all payroll checks to its employees.

6.3 Notification of Infringements and Claims

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

6.4 Indemnification for Use of Marks

Franchisor shall reimburse Franchisee for all expenses reasonably incurred by Franchisee in any trademark or similar proceeding disputing Franchisee's authorized use of any Mark, provided that Franchisee has complied with the provisions of Section 6.3 and has complied with this Agreement and Franchisor's directions in responding to such proceeding. At Franchisor's option, Franchisor or its designee may defend and control the defense of any proceeding arising directly from Franchisee's use of any Mark. This indemnification shall not include the expense to Franchisee of removing signage or discontinuance of the use of the Marks. This indemnification shall not apply to litigation between Franchisor and Franchisee wherein Franchisee's use of the Marks is disputed or challenged by Franchisor. This indemnification shall not apply to any separate legal fees or costs incurred by Franchisee in seeking independent counsel separate from the counsel representing Franchisor and Franchisee in the event of litigation disputing Franchisor and Franchisee's use of the Marks.

6.5 Discontinuance of Use

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

6.6 Right to Inspect

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

6.7 Franchisor's Sole Right to Domain Name

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

7. TRADE SECRETS AND OTHER CONFIDENTIAL INFORMATION

7.1 Confidentiality of Trade Secrets and Other Confidential Information

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

7.2 Additional Developments

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

7.3 Exclusive Relationship

Franchisee acknowledges that Franchisor would be unable to protect the Trade Secrets and other Confidential Information against unauthorized use or disclosure and would be unable to encourage a free exchange of ideas and information among Lee’s Sandwiches franchisees if owners of Lee’s Sandwiches Businesses and members of their immediate families or households were permitted to hold an interest in or perform services for any Competitive Business. Therefore, during the term of this Agreement, neither Franchisee nor any holder of a legal or beneficial interest in Franchisee (or any member of their immediate families or households), nor any officer or

director, either directly or indirectly, for themselves, or through, on behalf of or in conjunction with any person, partnership, corporation, limited liability company or other business entity, shall:

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

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

7.4 Nondisclosure and Non-Competition Agreements with Certain Individuals

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

7.5 Reasonableness of Restrictions

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

8. TRAINING AND ASSISTANCE

8.1 Initial Training

Franchisor shall make an initial training program available to the Designated Owner, other persons with a 5% or greater equity interest in Franchisee, and one managerial employee (up to a total of 3 persons). Approximately four (4) weeks prior to the opening of the Franchised Business, the Designated Owner must attend and successfully complete, to Franchisor's satisfaction, an initial training program pertaining to the Franchised Business including, but not limited to, food preparation and presentation methods and techniques; maintenance of quality standards; customer service techniques; record keeping; and reporting procedures and other information and assistance. Franchisor shall conduct the initial training program at its headquarters or at another designated location. Franchisor shall not charge tuition or similar fees for initial training, however, all expenses incurred by Franchisee in attending such program including, but not limited to, travel costs, room and board expenses and employees' salaries, shall be the sole responsibility of Franchisee. Franchisee shall be solely responsible for training its management and other employees to maintain brand standards. Franchisor reserves the right to agree in its discretion to deliver the content of the initial training program on site at Franchisee's store.

8.2 Opening Assistance

For approximately one (1) week around the opening of the Franchised Business, Franchisor shall make available to Franchisee, to the extent Franchisor considers appropriate and at Franchisor's expense, one (1) or more of Franchisor's representatives, experienced in the System, for the purpose of providing general assistance and guidance in connection with the Franchisee's opening of the Franchised Business, all at Franchisee's sole liability and responsibility. If Franchisor elects to provide the initial training information to Franchisee on site, as noted in Section 8.1, above, such training shall be in addition to the week of opening assistance described above. If Franchisee fails to satisfactorily complete training within the standard program period or if Franchisee requests additional on-site assistance at any time, and should Franchisor decide in its discretion to provide more training/assistance, then Franchisee shall pay Franchisor's then-current standard rates, plus expenses, for such additional assistance.

8.3 Failure to Complete Initial Training Program

If Franchisor determines that the initial Designated Owner is unable to satisfactorily complete the training program, as described above, Franchisor has the right to terminate this Agreement. If this Agreement is terminated pursuant to this Section 8.3, Franchisor shall return to Franchisee fifty percent (50%) of the Franchise Fee paid by Franchisee upon Franchisor's receipt of a general release in Franchisor's then current form, releasing any and all claims against Franchisor, its Affiliates, and their respective officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities). If Franchisee is a business entity and the Designated Owner fails to complete the initial training program to Franchisor's reasonable satisfaction, Franchisee may be permitted to select a substitute Designated Owner and such person must complete the initial training to Franchisor's satisfaction.

8.4 New Designated Owner

After beginning operations, should Franchisee name a new Designated Owner, Franchisee must notify Franchisor of the identity of the new Designated Owner and the new Designated Owner must complete the initial training program to Franchisor's satisfaction within sixty (60) days of being named. Franchisor may charge the then current training fees associated with the new Designated Owner's initial training program, which are payable by Franchisee upon demand. In all events, Franchisee shall be responsible for all travel costs, room and board and employees' salaries incurred in connection with such training.

8.5 Ongoing Training

From time to time, Franchisor may provide ongoing training programs or seminars during the term of this Agreement. Franchisor may require in its discretion that Designated Owner attend any such program or seminar, but shall not charge a fee for any mandatory ongoing training. Franchisee shall be responsible for all travel costs, room and board and employees' salaries incurred in connection with such training.

9. CONFIDENTIAL OPERATIONS MANUAL

9.1 Loan by Franchisor

While this Agreement is in effect, Franchisor shall lend to Franchisee one (1) copy of the Confidential Operations Manual or grant Franchisee access to an electronic copy of the Confidential Operations

Manual. Franchisee shall conduct the Franchised Business in strict accordance with the mandatory provisions set forth in the Confidential Operations Manual. The Confidential Operations Manual may consist of one (1) or more separate manuals and other materials as designated by Franchisor and may be in written or electronic form. The Confidential Operations Manual shall, at all times, remain the sole property of Franchisor and shall promptly be returned to Franchisor upon expiration or termination of this Agreement. Any sample forms contained in the Operations Manual shall be provided for voluntary, not mandatory, use by Franchisee. Franchisor makes no representations to Franchisee about the conformity of such documents to law. Franchisee should seek legal advice in connection with any such materials.

9.2 Revisions

Franchisor has the right to add to or otherwise modify the Confidential Operations Manual from time to time to reflect changes in the specifications, standards, operating procedures and rules prescribed by Franchisor. Franchisor may make such additions or modifications without prior notice to Franchisee. Franchisee shall immediately, upon notice, adopt any such changes and shall ensure that its copy of the Confidential Operations Manual is up-to-date at all times. If a dispute as to the contents of the Confidential Operations Manual arises, the terms of the master copy of the Confidential Operations Manual maintained by Franchisor at Franchisor's headquarters shall be controlling.

9.3 Confidentiality

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

9.4 Franchisee's Control

Franchisor and Franchisee acknowledge and agree that Franchisor neither dictates nor controls labor or employment matters for Franchisee and Franchisee's employees, including, but not limited to, hiring, firing, wages, scheduling and/or discipline of Franchisee employees, or the manner and means by which they carry out their duties. Franchisee further acknowledges and agrees that any personnel and security-related policies or procedures in any Confidential Operations Manual or other written information from Franchisor are for Franchisee's optional use and are not mandatory provisions. It is Franchisee's sole responsibility to determine to what extent, if any, any such policies and procedures described in any Manual or otherwise by Franchisor might be applicable to Franchisee's Franchised Business. Franchisor and Franchisee agree that neither is, nor will be deemed to be, a joint

employer with the other and Franchisee will defend, indemnify and hold harmless Franchisor, its Licensor and Franchisor Associates with respect to any such or similar claims against any or all of them.

10. FRANCHISE SYSTEM

10.1 Uniformity

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

10.2 Modification of the System

10.2.1 If in Section 2.1, Franchisee and Franchisor have agreed that Franchisee will establish and operate a Lee's Sandwiches Baguette Factory Production Unit, a Lee's Sandwiches Production Unit or a Lee's Sandwiches Non-Production Unit, Franchisor has the right to change or modify the System from time to time including, without limitation, the adoption and use of new or modified Marks or copyrighted materials, and new or additional computer hardware, software, equipment, inventory, supplies or sales and marketing techniques. Franchisee shall accept and use any such changes in, or additions to, the System. Franchisee shall make such expenditures as such changes, additions or modifications in the System may reasonably require, provided that Franchisee will not be required to make any capital investment during the initial term of the franchise, or during any renewal term, in excess of \$50,000. Any required expenditure for changes or upgrades to the System shall be in addition to expenditures for repairs and maintenance as required in Section 13.3.

10.3 Variance

Franchisor has the right to vary standards or specifications for any franchisee based upon that particular franchisee's qualifications, the peculiarities of the particular site or circumstances, the demographics of the trade area, business potential, existing business practices or any other condition which Franchisor finds warrants such a variation. Franchisor shall not be required to disclose or grant to Franchisee a like or similar variance hereunder.

11. ADVERTISING AND PROMOTIONAL ACTIVITIES

11.1 Grand Opening Advertising

Prior to, and/or during a period of approximately three (3) months following the initial opening of the Franchised Business, Franchisee shall spend an amount specified by Franchisor on local advertisement and promotion of the initial opening ("Grand Opening Advertising"). Franchisor shall determine and specify an appropriate minimum amount which Franchisee shall be required to expend on Grand Opening Advertising based upon Franchisor's general assessment of the area surrounding the Franchised Business and taking into account other potentially relevant factors, such as prevailing costs of advertising in the area, the time of year of opening and other similar factors. Further, Franchisor shall specify the time at which Franchisee shall conduct Grand Opening Advertising. Prior to their use, all materials to be used in Grand Opening Advertising must be approved by Franchisor through the process set forth in Section 11.2.2. Grand Opening Advertising expenditures shall be in addition to any Local Advertising expenditures and Marketing Fund Contributions.

11.2 Local Advertising

11.2.1 Franchisee shall continuously promote the Franchised Business. Every month, beginning 3 months after commencing operation of the Franchised Business, Franchisee shall spend two percent (2%) of the previous month's Gross Sales on advertising, promotions and public relations within the immediate locality surrounding the Franchised Business ("Local Advertising"). Such expenditures shall be made directly by Franchisee, subject to the prior approval and direction of Franchisor. Franchisor shall provide general guidelines to Franchisee for conducting Local Advertising. Within thirty (30) days after the end of each month, Franchisee shall furnish to Franchisor an accurate accounting of the expenditures on Local Advertising for the preceding month.

11.2.2 Franchisee shall submit to Franchisor, for its prior approval, all advertising and promotional materials to be used by Franchisee including, but not limited to, television ads, radio ads, ad copy, coupons, flyers, scripts and direct mail. Franchisor shall use reasonable efforts to provide notice of approval or disapproval within twenty (20) days from the date all requested material is received by Franchisor. If Franchisor does not approve submitted materials by the end of such twenty (20) day period, such materials shall be deemed to have received the required approval. Franchisee shall not use any marketing or promotional material prior to approval by Franchisor. The submission of advertising materials to Franchisor for approval shall not affect Franchisee's right to determine the prices at which Franchisee sells products or provides services, nor shall it change the parties' relationship as wholly independent of one another.

11.2.3 Franchisee shall comply with any promotional, coupon and discount programs or policies Franchisor may establish.

11.2.4 Franchisor may, but is not required to, provide Franchisee advertising templates, mobile or other applications or other promotional material for marketing the Franchised Business, which Franchisee may have to customize for use. Franchisor may choose to charge a reasonable fee for any such item. Such charges shall not be considered as or deemed to be Marketing Fund contributions or fees and are separate and distinct from Franchisee's marketing fee obligations as provided in Section 11.3, below. Franchisee agrees not to implement any gift card, gift certificate, customer loyalty or similar rewards program or any mobile or other payment capability/app/program for its Franchised Business without Franchisor's prior written approval or as may be authorized in any Confidential Operations Manual or through other written communication to Franchisees. Franchisor can condition any such consent upon Franchisee's compliance with or inclusion of particular program terms or practices designed to protect the good will associated with Marks. Franchisee agrees to accept credit cards, debit cards, and such other means of payment; to sell and accept Franchisor approved gift cards, gift certificates, and other comparable items, as provided or designated by Franchisor or which are prepared using any standard form Franchisor prescribes; and to abide by the terms of any gift card or gift certificate or loyalty program Franchisor specifies, all as provided in any Manual or through other written communication to Franchisees and at Franchisee's expense, including without limitation all policies and procedures relating to sales, issuance and redemption and payment of related fees and costs. Franchisee agrees to honor gift cards in the form Franchisor provides or approves, if any, regardless of whether issued directly or indirectly by Franchisee, Franchisor or another Lee's Sandwiches Unit, and to timely make any payments due to Franchisor or a designee for gift cards sold by Franchisee and to comply with processes for requests for reimbursement for goods and services sold in exchange for gift cards. Franchisee further agrees to implement and accept in its Franchised Business any mobile or any other payment capability/app/program Franchisor designates from time to time and to abide by the terms of any related mobile or any other payment program policies and procedures, all as provided in any Confidential Operations Manual or

through other written communication to Franchisees and at Franchisee's expense. Franchisee agrees to purchase or lease, install and use all equipment components and software that meet any standards and specifications Franchisor establishes and which allow Franchisee to accept and process any such gift/loyalty cards, certificates or programs and mobile or any other payment programs, as Franchisor may require. Franchisee shall give Franchisor independent access to related system information. Expenses incurred by Franchisee in connection with any gift card, certificate or customer loyalty program or any mobile or other payment capability/app/program shall not be considered or deemed to be Marketing Fund contributions or to satisfy any Cooperative Advertising requirement and are separate and distinct from Franchisee's marketing fee obligations, as provided in Section 11.3., and Franchisee's Cooperative Advertising requirements under Section 11.4. below.

11.3 Marketing Fund

Franchisor may establish and administer a System-wide marketing, advertising and promotion fund to assist in Franchisor's regional and national advertising ("Marketing Fund"). If established, Franchisee shall be required to contribute weekly to the Marketing Fund in an amount specified by Franchisor and which Franchisor may adjust from time to time ("Marketing Fund Contributions"). Marketing Fund Contributions shall be made at the time and in the manner provided for Royalty Fees in Section 3.2. Franchisor shall notify Franchisee at least thirty (30) days before changing Marketing Fund Contribution requirements. The Marketing Fund shall be maintained and administered by Franchisor or its designee as follows:

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

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

11.3.3 In any given year, Franchisor may spend more or less than the total amount of Marketing Fund Contributions collected for that year. In either case, Franchisor will carry-forward any Marketing Fund surplus or deficit to a future fiscal period. Franchisor will treat interest paid, if any, on Marketing Fund balances as additional Marketing Fund revenue.

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

11.3.5 Each Lee*s Sandwiches Business operated by Franchisor or an Affiliate may, but is not required to, make Marketing Fund Contributions, or contribute at the same rate as Lee*s Sandwiches franchisees.

11.3.6 An accounting of the operation of the Marketing Fund shall be prepared annually and shall be available to Franchisee upon request. Franchisor retains the right, but has no obligation, to have the Marketing Fund reviewed or audited and reported on, at the expense of the Marketing Fund, by an independent certified public accountant selected by Franchisor.

11.4 Cooperative Advertising

Franchisor has the right, but not the obligation, to create a Cooperative Advertising program for the benefit of Lee*s Sandwiches Businesses located within a particular region. Franchisor has the right to collect and designate all or a portion of the Local Advertising for a Cooperative Advertising program. Franchisor has the right to determine the composition of all geographic territories and market areas for the implementation of each Cooperative Advertising program and to require that Franchisee participate in such Cooperative Advertising programs when established within Franchisee's region. If a Cooperative Advertising program is implemented in a particular region, Franchisor has the right to administer the Cooperative Advertising program or to establish an advertising council of franchisees to self-administer the Cooperative Advertising program. The Cooperative Advertising program will operate from written governing documents which will be available for Franchisee to review. Franchisee shall participate in the council according to the rules and procedures established by the council and Franchisee shall abide by the council's decisions. Should Franchisor establish a Cooperative Advertising program or programs with or without an advertising council, Franchisor has the right, but not the obligation, to change, dissolve or merge such program(s) and/or council(s) at any time. Company-owned and/or affiliate-owned locations may, but are not required to, contribute to any Cooperative Advertising program.

11.5 Internet Advertising

Franchisee may not establish a presence on, or market using, the Internet in connection with the Franchised Business without Franchisor's prior written consent. Franchisor has established and maintains an Internet website at the uniform resource locator www.leessandwiches.com that provides information about the System and the products and services that Franchisor and its franchisees provide. Franchisor may (but is not required to) include at the Lee*s Sandwiches website an intranet section or an interior page containing information about the Franchised Business. If Franchisor includes such information on the Lee*s Sandwiches website, Franchisor has the right to require Franchisee to prepare all or a portion of the section or page, at Franchisee's expense, using a template that Franchisor provides. All such information shall be subject to Franchisor's approval prior to posting. Franchisor retains the sole right to advertise and sell the products and services offered by Lee*s Sandwiches and to use the Marks on the Internet, including the use of websites, domain names, uniform resource locators, keywords, linking, search engines (and search engine optimization techniques), banner ads, meta-tags, marketing, auction sites, e-commerce and co-branding arrangements. Franchisee may be requested to provide content for Franchisor's Internet marketing and shall be required to follow Franchisor's intranet and Internet usage rules, policies and requirements. Franchisor retains the sole right to approve any linking to, or other use of, the Lee*s Sandwiches website. Franchisee shall comply with all policies and requirements established by Franchisor regarding Internet key word purchases, social network pages, e-mail protocol, web pages, websites, videos, digital content and any other publication on the Internet or in social media in which the Marks are used or mentioned.

These requirements survive the termination or expiration of this Agreement. Franchisee agrees that electronic commerce is a rapidly developing field and that Franchisor can impose conditions and requirements in addition to the provisions of this Section 11.5. and may establish and modify policies concerning use of the Internet and various media, and Franchisee will comply with all such policies.

11.6 Telephone Directory Advertising

Franchisee must list the telephone number(s) for the Franchised Business in the “white pages” local telephone directory and advertise the Franchised Business in the classified or “yellow pages” telephone directory distributed in its trade area and in such directory heading or category as specified by Franchisor. Franchisee must place the classified directory advertisement and listings together with other Lee’s Sandwiches Businesses operating within the distribution area of the directories. If a joint listing is obtained, all Lee’s Sandwiches Businesses listed together shall pay a *pro rata* share of the cost of the advertisements and listings. Telephone directory advertising expenditures are part of Franchisee’s Local Advertising obligations.

12. ACCOUNTING, RECORDS AND REPORTING OBLIGATIONS

12.1 Records

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

12.2 Gross Sales Reports

Franchisee shall maintain an accurate record of Gross Sales and shall deliver to Franchisor a signed and verified statement of Gross Sales (“Gross Sales Report”) for the week ending each Saturday in a form that Franchisor approves or provides in the Confidential Operations Manual. The Gross Sales Report for the preceding week must be provided to Franchisor by the close of business on Tuesday of each week as provided in Section 3.2.

12.3 Financial Statements

Franchisee shall supply to Franchisor on or before the fifteenth (15th) day of each month, in a form approved by Franchisor, a balance sheet as of the end of the last day of the preceding month and an income statement for the preceding month and the fiscal year-to-date. Franchisee shall also, at its expense, submit to Franchisor, within sixty (60) days after the end of each calendar year, an income statement for the calendar year just ended and a balance sheet as of the last day of the calendar year. Such financial statements shall be prepared in accordance with GAAP applied on a consistent basis. If required by Franchisor, such financial statements shall be reviewed or audited by a certified public accountant, at Franchisee’s expense. Franchisee shall submit to Franchisor such other periodic reports in the manner and at the time specified in the Confidential Operations Manual or otherwise in writing.

12.4 Other Reports

Franchisee shall submit to Franchisor copies of all state sales tax returns that are required to be filed with the appropriate governmental agency and such other records as Franchisor may reasonably request from time to time or as specified in the Confidential Operations Manual. Franchisor shall have the right to release financial and operational information relating to the Franchised Business to Franchisor's lenders or prospective lenders. Franchisee shall certify as true and correct all reports to be submitted pursuant to this Agreement.

12.5 Computer/Point-of-Sale System

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

12.6 Video/Computer Surveillance System

Franchisor requires Franchisee to purchase, install and use video and computer surveillance systems consisting of hardware and software in accordance with Franchisor's specifications. Franchisor reserves the right to require Franchisee to provide Franchisor with full and direct access to all of Franchisee's video and computer surveillance systems and all related information, in such manner as Franchisor may direct.

12.7 Right to Inspect

Franchisor or its designee has the right, during normal business hours, to examine, copy and audit the books, records and tax returns of Franchisee. If the audit or any other inspection should reveal that any payments to Franchisor have been underpaid, then Franchisee shall immediately pay to Franchisor the amount of the underpayment plus interest from the date such amount was due until paid at the rate of eighteen percent (18%) per annum (or the highest rate allowed by the law of the state where Franchisee is located, whichever is lower). If the audit or any other inspection should reveal that Franchisee has not spent two percent (2%) of its monthly Gross Sales on Local Advertising or if the inspection discloses an underpayment of any amounts due to Franchisor of three percent (3%) or more of the amount due for any period covered by the audit, Franchisee shall, in addition, reimburse Franchisor for any and all costs and expenses connected with the inspection (including, without limitation, travel expenses and reasonable accounting and attorneys' fees). The foregoing remedies shall be in addition to any other remedies Franchisor may have.

12.8 Release of Records

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

13. STANDARDS OF OPERATION

13.1 Authorized Products, Services and Suppliers

13.1.1 Franchisee acknowledges that the reputation and goodwill of the System is based in large part on offering high quality products and services to its customers. Accordingly, Franchisee shall provide or offer for sale or use at the Franchised Business only those ingredients, food, packaging, supplies, signs, equipment and other items and services that Franchisor from time to time approves (and which are not thereafter disapproved) and that comply with Franchisor's specifications and quality standards. If required by Franchisor, any such items or services shall be purchased only from "Approved Suppliers" that Franchisor designates or approves (which might include, or be limited to, Franchisor or an Affiliate). Franchisee shall not offer for sale, sell or provide through the Franchised Business or from the Approved Location any menu items, products or services that Franchisor has not approved.

13.1.2 Franchisor shall provide Franchisee, in the Confidential Operations Manual or other written or electronic form, with a list of specifications and a list of Approved Suppliers for some or all of the food products, supplies, signs, furniture, fixtures, inventory, equipment and other approved or specified items and services, and Franchisor may from time to time issue revisions to such lists. If Franchisor or an Affiliate is an Approved Supplier, Franchisee shall execute a standard form purchase or supply agreement for the items to be supplied by Franchisor or its Affiliate. If Franchisee desires to utilize any products or services that Franchisor has not approved (for products and services that require supplier approval), Franchisee shall first send Franchisor sufficient information, specifications and samples for Franchisor to determine whether the service or product complies with its standards and specifications or whether the supplier meets its Approved Supplier criteria. Franchisee shall bear all expenses incurred by Franchisor in connection with determining whether it shall approve an item, service or supplier. Franchisor will decide within thirty 30 days after receiving the required information whether Franchisee may purchase or lease such items or services or from such supplier. Approval of a supplier may be conditioned on the supplier's ability to provide sufficient quantity of product; quality of products or services at competitive prices; production and delivery capability; and dependability and general reputation. Nothing in this Section shall be construed to require Franchisor to approve any particular supplier, or to require Franchisor to make available to prospective suppliers, standards and specifications that Franchisor deems confidential.

13.1.3 Notwithstanding anything contrary in this Agreement, Franchisor has the right to review from time to time its approval of any items or suppliers. Franchisor may revoke its approval of any item, service or supplier at any time by notifying Franchisee and/or the supplier. Franchisee shall, at its own expense, promptly cease using, selling or providing any items or services disapproved by Franchisor and shall promptly cease purchasing from suppliers disapproved by Franchisor.

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

13.1.5 Franchisor reserves the right to designate a supplier as an exclusive supplier of specified products/services/equipment, to concentrate purchases with one or more suppliers and to receive royalties

or other payments from suppliers for selecting them as organization suppliers or for allowing them to sell proprietary products. Franchisor and its Affiliates also reserve the right to derive profits and to receive discounts, commissions, rebates, promotional allowances and other economic benefits as a result of purchases by franchisees of products, equipment and services from Franchisor or its Affiliate or from any other supplier. Franchisor and any Franchisor Affiliate each can be party to agreements with suppliers that provide for marketing or promotional rebates or allowances, volume discounts or other economic benefits. Any rebates, discounts, allowances, profits, mark ups or other benefits earned under these agreements or otherwise as a result of franchisees' purchases of that supplier's products or otherwise may be kept and used by Franchisor or its Affiliate in its/their sole discretion, as applicable. Franchisor and its Affiliates can be an Approved Supplier or exclusive supplier of specific equipment/products/services to be purchased by franchisees. Franchisee acknowledges and agrees that Franchisor and each such Affiliate will earn a profit in connection with their respective sales of products (including proprietary products), equipment and services to franchisees. Franchisee shall have no entitlement to or interest in any such benefits.

13.1.6 Franchisee shall use, offer and maintain specified items in stock in such quantities as are needed to meet reasonably anticipated consumer demand, including as of the Effective Date of this Agreement certain bakery flour, dough, deli meats, desserts and other items as specified in the Confidential Operations Manual, which are in accordance with Franchisor's standards and specifications and/or formulas. Franchisee shall purchase such products from Franchisor, Franchisor's Affiliate or an approved supplier, as applicable. Franchisor has the right to adjust the number and type of such products from time to time. Any such products purchased from Franchisor or Franchisor's Affiliate shall be purchased according to the then current order, delivery and payment policies and procedures then in effect and as may be established from time to time. Franchisor, Franchisor's Affiliate and approved suppliers reserve the right to change prices and terms in connection with products/services sold or manufactured by any of them, and to discontinue the manufacture and/or sale of any such products/services in their sole discretion. Neither Franchisor nor its Affiliate shall be liable for any delays in shipment, receipt, or delivery in connection with any approved or designated products.

13.2 Lee*s Sandwiches Products

13.2.1 Franchisor and its Affiliates have identified certain items including, but not limited to, certain bakery flour, dough, all meat products, desserts and other items as specified in the Confidential Operations Manual which are proprietary or especially suited for use in the Franchised Business referred to as "Lee*s Sandwiches Products." To maintain consistency, quality and uniformity of the System and subject to Section 16.4, below, the Lee*s Sandwiches Products shall be made available to Franchisee in reasonable quantities in accordance with the procedures for ordering, handling and delivery that Franchisor, Franchisor's Affiliate or any approved suppliers, as applicable, may establish from time to time and at prices and on credit terms, if any, as they may establish.

13.2.2 Franchisee acknowledges that the Lee*s Sandwiches Products produced and/or distributed on behalf of Franchisor and its Affiliates are distinctive as a result of being produced or selected pursuant to Franchisor and its Affiliates' experience and are inextricably interrelated with the Marks. Franchisee shall order and purchase all of its requirements of Lee*s Sandwiches Products exclusively from Franchisor or a supplier designated by Franchisor. Franchisee shall, at all times, maintain an inventory of Lee*s Sandwiches Products as necessary to operate the Franchised Business at full capacity.

13.3 Appearance and Condition of the Franchised Business

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

13.4 Ownership and Management

The Franchised Business shall, at all times, be under the direct supervision of Franchisee. The Designated Owner shall devote sufficient efforts to the management of the day-to-day operation of the Franchised Business, but not less than on a full time basis. Franchisee shall keep Franchisor informed, in writing, at all times of the identity of its Designated Owner. The Designated Owner must not engage in any business or other activities that will conflict with its obligations under this Agreement. Franchisee is solely legally and financially responsible for all operations, policies, procedures and personnel related to the Franchised Business.

13.5 Personnel

Franchisee shall maintain competent and conscientious personnel to operate the Franchised Business in accordance with this Agreement and the mandatory provisions of the Confidential Operations Manual. Franchisee shall train or cause the training of all personnel as and when required by prudent business practices, System standards or this Agreement and Franchisee shall be solely responsible to comply with all applicable laws and regulations regarding employment, including the qualifications, hiring, training and separation of employees, as well as wage and hour laws, unemployment insurance, workers compensation and other labor related laws and regulations. All costs, expenses and liabilities associated with Franchisee’s performance of its obligations under this Section shall be the sole responsibility of Franchisee.

13.6 Days of Operation

Franchisee shall keep the Franchised Business open for business during normal business hours on the days specified in the Confidential Operations Manual or approved in writing by Franchisor.

13.7 Contributions and Donations

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

13.8 Licenses and Permits; Legal Compliance

Franchisee shall secure and maintain in force all required licenses, permits and certificates necessary for the operation of the Franchised Business and shall operate the Franchised Business in full compliance with all applicable laws, ordinances and regulations. While Franchisor may from time to time provide Franchisee with template or sample forms/agreements and other materials and/or require through any Confidential Operations

Manual or other written instruction that forms used by Franchisee in the Franchised Business contain certain terms and/or protections for Franchisor, the Marks or the System, Franchisor does not warrant the legal sufficiency or quality of any such documents that Franchisor may approve or provide and Franchisee is responsible for having all such items reviewed and modified for compliance with local law by an attorney licensed to practice in the state(s) where the Franchised Business will be located. Franchisee is solely responsible for identifying and complying with all federal, state and local laws, regulations and ordinances applicable to the Franchised Business, including without limitation laws relating to food preparation, handling and storage; consumer protection laws including those relating to product labeling and nutritional claims; employment-related laws such as the Fair Labor Standards Act and state wage hour laws, the National Labor Relations Act, federal and state laws relating to occupational safety and health, laws prohibiting discrimination and harassment, and laws relating to unemployment compensation, workers compensation or employee benefits; sales and income taxes, withholding requirements and other applicable taxes and assessments; privacy and data protection laws; laws relating to persons with disabilities. Franchisor makes no representation to Franchisee with regard to any legal requirements that Franchisee must satisfy or comply with in connection with the operation of the Franchised Business. Franchisee shall be solely responsible for investigating and complying with all such laws, ordinances and regulations with regard to the operation of the Franchised Business.

13.9 Notification of Proceedings

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

13.10 Compliance with Good Business Practices

Franchisee acknowledges that the quality of customer service is material to this Agreement and the relationship created and licenses granted hereby. Therefore, Franchisee shall at all times give prompt, courteous and efficient service to customers of the Franchised Business. The Franchised Business shall in all dealings with its customers, vendors and the general public, adhere to the highest standards of honesty, fair dealing and ethical conduct. Franchisee shall pay each vendor in full in accordance with expressed credit terms, except only those items that are the subject of a good faith dispute, and as to those claims, Franchisee shall pay in full that portion of the item that is not subject to a good faith dispute. Franchisee shall also maintain working capital sufficient to pay its creditors in full on a timely basis. If Franchisee is not an individual, any debt owed by Franchisee to a Designated Owner, or to any individual who owns any equity interest in Franchisee shall be subordinated to any Indebtedness. Franchisor has the right to terminate this Agreement for violation of this Section. Franchisee shall reimburse Franchisor for all costs incurred by Franchisor in servicing a customer of the Franchised Business pursuant to this Section.

13.11 Uniforms

Franchisee shall abide by any uniform or dress code requirements stated in the Confidential Operations Manual or otherwise. Uniforms, if required, must be purchased from an Approved Supplier, if such is designated, or if none, then a supplier who meets Franchisor's specifications and quality standards for uniforms.

13.12 Vending Machines

Franchisee shall not install or use at the Franchised Business any vending machines, amusement devices, jukeboxes, video machines or other similar devices without first securing Franchisor's written approval.

13.13 Credit Cards

Franchisee shall, at its expense, lease or purchase the necessary equipment and/or software and shall have arrangements in place with Visa, MasterCard, American Express and such other credit card issuers as Franchisor may designate, from time to time, to enable the Franchised Business to accept such methods of payment from its customers. Franchisee must comply with the then-current Payment Card Industry Data Security Standard and any revision to it adapted by the PCI Security Standards Council, LLC (the "PCI Council") or any successor organization or standards Franchisor may specify. Franchisee shall implement enhancements and security requirements and other requirements established by the PCI Council for merchants accepting payment by credit or debit cards.

13.14 E-Mail

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

13.15 Best Efforts

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

14. FRANCHISOR'S ADDITIONAL OPERATIONS ASSISTANCE

14.1 General Advice and Guidance

Franchisor shall be available to render advice, discuss problems and offer general guidance to Franchisee by telephone, e-mail, facsimile, newsletters and other methods with respect to planning, opening and operating the Franchised Business to the extent Franchisor considers appropriate. Franchisor shall not charge for this service; however, Franchisor retains the right to refuse or charge a fee for this service should Franchisee be deemed by Franchisor to be utilizing this service too frequently or in an unintended manner. Franchisor's advice or guidance to Franchisee relative to prices for products and services that, in Franchisor's judgment, constitutes good business practice is based upon the experience of Franchisor and its franchisees in operating Lee's Sandwiches Businesses and an analysis of costs and prices charged for competitive products and services. Franchisee shall have

the sole right to determine the prices to be charged by the Franchised Business; provided, that Franchisor reserves the right to establish minimum and maximum prices to the extent permitted under applicable law. Franchisor also may recommend pricing. Franchisor (or its Affiliate, as applicable) shall have the sole right to determine the prices to be charged for products sold through the Lee*s Sandwiches Internet site, including products sold to persons identified as customers of the Franchised Business.

14.2 Periodic Visits

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

15. INSURANCE

15.1 Types and Amounts of Coverage

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

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

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

15.1.3 commercial general liability insurance against claims for bodily and personal injury, death and property damage caused by, or occurring in conjunction with, the operation of the Franchised Business, or Franchisee's conduct of business pursuant to this Agreement, with a minimum liability coverage of ONE MILLION DOLLARS (\$1,000,000.00) per occurrence and TWO MILLION DOLLARS (\$2,000,000.00) in the aggregate or, if higher, the statutory minimum limit required by state law;

15.1.4 automobile liability insurance for owned or hired vehicles, with a combined single limit of at least ONE MILLION DOLLARS (\$1,000,000.00) or, if higher, the statutory minimum limit required by state law;

15.1.5 commercial general liability coverage with a minimum limit of ONE MILLION DOLLARS (\$1,000,000.00);

15.1.6 employment practices liability insurance with a minimum limit of ONE MILLION DOLLARS (\$1,000,000.00); and

15.1.7 such insurance as necessary to provide coverage under the indemnity provisions set forth in Section 22.3.

Franchisor does not represent that these types and limits of insurance policies will be adequate for Franchisee's business needs. In addition to the required policies enumerated above, Franchisor recommends that Franchisee purchase business interruption insurance.

15.2 Future Increases

Franchisor has the right to reasonably increase the minimum liability protection requirement annually and require different or additional insurance coverage(s) to reflect inflation, changes in standards of liability, future damage awards or other relevant changes in circumstances. Franchisee shall comply with all such changed standards within 30 days or such longer time as Franchisor may specify.

15.3 Carrier Standards

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

15.4 Evidence of Coverage

Franchisee's obligation to obtain and maintain the foregoing policies shall not be limited in any way by reason of any insurance which may be maintained by Franchisor, nor shall Franchisee's performance of this obligation relieve it of liability under the indemnity provisions set forth in Section 22.3. Franchisee shall provide, annually, certificates of insurance showing compliance with the foregoing requirements. Such certificates shall state that said policy or policies shall not be canceled or altered without at least thirty (30) days' prior written notice to Franchisor and shall reflect proof of payment of premiums.

15.5 Failure to Maintain Coverage

In addition to being a default under this Agreement, as set forth in Section 16.2.2.2, if Franchisee fails to procure and maintain insurance coverage, as required under this Agreement, Franchisor has the right (but not the obligation) to immediately procure such insurance coverage and to charge the premiums to Franchisee, which charges, together with a reasonable fee for expenses incurred by Franchisor in connection with such procurement, shall be payable by Franchisee immediately upon notice.

16. DEFAULT AND TERMINATION

16.1 Termination by Franchisee

Franchisee shall not terminate this Agreement, except as permitted by applicable law. Any claim by Franchisee (or any of Franchisee's legal or beneficial owners) shall be made and resolved in compliance with the other terms of this Agreement, including without limitation the dispute resolution provisions.

16.2 Termination by Franchisor

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

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

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

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

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

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

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

16.2.1.7 fails to have any holder of a legal or beneficial interest in Franchisee (and any member of their immediate families or households), and any officer or director execute a nondisclosure and non-competition agreement, in a form the same as or similar to the Nondisclosure and Non-Competition Agreement attached as Exhibit 2-A and 2-B, upon execution of this Agreement or prior to or contemporaneously with each such person's affiliation with Franchisee; fails to enter into nondisclosure and/or non-competition agreements, in a form acceptable to Franchisor, with Franchisee's employees, if required by Franchisor; or fails to provide Franchisor with copies of all nondisclosure and/or non-competition agreements signed pursuant to Section 7.4 if requested by Franchisor;

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

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

16.2.1.10 fails to maintain the Franchised Business under the primary supervision of a Designated Owner during any part of the one hundred eighty (180) days following the death or Incapacity of Franchisee or any holder of a legal or beneficial interest in Franchisee pursuant to Section 19.6;

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

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

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

16.2.1.14 fails on two (2) or more separate occasions within any period of twelve (12) consecutive months to submit reports or other information or supporting records when due, to pay any Royalty Fee, Marketing Fund Contribution, amounts due for purchases from Franchisor and any Affiliate, or other payment when due to Franchisor or any Affiliate;

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

16.2.1.16 engages in any activity exclusively reserved to Franchisor;

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

16.2.1.18 breaches this Agreement, fails to pay when due any amounts owed Franchisor or any of Franchisor's Affiliates or any supplier or business creditor and/or fails to comply with mandatory specifications, customer service standards or operating procedures prescribed in the Confidential Operations Manual on two (2) or more separate occasions within any period of twelve (12) consecutive months, whether or not previous breaches or failures are cured;

16.2.1.19 defaults in a material respect under any other agreement between Franchisor (or any Affiliate) and Franchisee; or

16.2.1.20 with respect to books, records and accounting information (a) fails to provide Franchisor with any reports, financial statements or other accounting information required under Section 12 on a timely basis, (b) any such reports are materially false, or (c) refuses to provide Franchisor access to inspect as required under Section 12.7.

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

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

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

16.2.2.3 within thirty (30) days of receiving notice of any other default by Franchisee, or of Franchisee's failure to meet payment or other obligations due vendors or other third parties in connection with the operation of the Franchised Business or of Franchisee's failure to comply with any mandatory specification, standard or operating procedure prescribed in the Confidential Operations Manual or otherwise prescribed in writing.

16.2.3 Franchisee's or a Franchisee owner's default under this Agreement or any addendum or supplement hereto is a default under any other agreement between Franchisee or a Franchisee owner and Franchisor or any Franchisor Affiliate. A default under any other agreement between Franchisee or a Franchisee owner and Franchisor or any Franchisor Affiliate is a default under this Agreement. An election not to enforce any such default is not a waiver by Franchisor or any Franchisor Affiliate of any rights or remedies available under law or equity or by contract.

16.3 Reinstatement and Extension

If provisions of this Agreement provide for periods of notice less than those required by applicable law, or provide for termination, cancellation or non-renewal other than in accordance with applicable law, Franchisor may reinstate or extend the term of this Agreement for the purpose of complying with applicable law by submitting a written notice to Franchisee without waiving any of Franchisor's rights under this Agreement.

16.4 Right of Franchisor to Discontinue Services to Franchisee

If Franchisee is in breach of any obligation under this Agreement or under any other agreement with Franchisor or a Franchisor Affiliate, Franchisor and its Affiliates have the right to suspend performance of any of the obligations under this Agreement and such other agreements, including, without limitation, the sale or supply of any products or services for which Franchisor or an Affiliate is an Approved Supplier to Franchisee, until such time as Franchisee cures the breach.

17. GRANT OF SECURITY INTEREST AND RIGHTS THEREUNDER; WAIVERS

17.1 Grant of Security Interest

Franchisee hereby grants to Franchisor a security interest in all of the Collateral to secure the faithful performance of all of Franchisee's Obligations, including the timely payment of the Indebtedness.

17.2 Waiver of Rights and Defenses

17.2.1 Until such time as all Franchisee's Obligations are fully paid and satisfied, Franchisee waives any and all rights to be subrogated to the position of Franchisor or to have the benefit of any lien, security interest or other guaranty now or later held by Franchisor for the Franchisee's Obligations or to enforce any remedy which Franchisor now or later has against any other Obligor or any other person. Until such time as all of Franchisee's Obligations are fully paid and satisfied, Franchisee shall have no right of reimbursement, indemnity, contribution or other right of recourse to or with respect to any other Obligor. Franchisee agrees to indemnify and hold harmless Franchisor from and against any and all claims, actions, damages, costs and expenses, including reasonable attorneys' fees, incurred by Franchisor in connection with such Franchisee's exercise of any right of subrogation, contribution, indemnification or recourse with respect to this Agreement. Franchisor has no duty to enforce or protect any rights which any Franchisee may have against any other Franchisee or any other person and Franchisee assumes full responsibility for enforcing and protecting these rights.

17.2.2 To the fullest extent permitted by law, Franchisee absolutely, unconditionally, knowingly, and expressly waives: (i) notice of acceptance hereof; (ii) notice of any loans or other financial accommodations made or extended under this Agreement or the creation or existence of any Franchisee's Obligations; (iii) notice of the amount of the Franchisee's Obligations, subject, however, to such Franchisee's right to make inquiry of Franchisor to ascertain the amount of the Franchisee's Obligations at any reasonable time; (iv) notice of any adverse change in the financial condition of any other Obligor or any other person, or of any other fact that might increase such Franchisee's risk hereunder; (v) notice of presentment for payment, demand, protest, and notice thereof as to any instruments among this Agreement; (vi) notice of any default or event of default under this Agreement; and (vii) all other notices (except if such notice is specifically required to be given such Franchisee under this Agreement) and demands to which such Franchisee might otherwise be entitled.

17.2.3 The liability of Franchisee hereunder shall not be affected by (i) any agreement, understanding or representation that any of the Franchisee's Obligations is or was to be guaranteed by another person or secured by other property, or (ii) any release or unenforceability, whether partial or total, of rights, if any, which Franchisor may now or hereafter have against any other person, including any other Obligor, or property with respect to any of the Franchisee's Obligations. Without notice to any Franchisee and without affecting the liability of any Franchisee hereunder, Franchisor may (a) compromise, settle, renew, extend the time for payment, accelerate, change the manner or terms of payment, discharge the performance of, decline to enforce, or release all or any of the Franchisee's Obligations with respect to any other Obligor by written agreement with such other Obligor, (b) grant other exceptions to another Obligor in respect of the Franchisee's Obligations, (c) modify in any manner any documents relating to the Franchisee's Obligations with respect to any other Obligor by written agreement with such other Obligor, (d) release, surrender or exchange any deposits or other property securing the Franchisee's Obligations, whether pledged by another Obligor or any other person, or (e) compromise, settle, renew, or extend the time for payment, discharge the performance of, decline to enforce, or release all or any obligations of any

guarantor, endorser or other person who is now or may hereafter be liable with respect to any of the Franchisee's Obligations.

17.2.4 To the fullest extent permitted by law, Franchisee absolutely, unconditionally, knowingly, and expressly waives: its right, under Sections 2845 or 2850 of the California Civil Code, or otherwise, to require Franchisor to institute suit against, or to exhaust any rights and remedies which Franchisor has or may have against, any other Obligor or any third party, or against any collateral for the Franchisee's Obligations provided by any other Obligor or any third party. In this regard, Franchisee agrees that such Franchisee is bound to the payment and performance of all Franchisee's Obligations, whether now existing or hereafter accruing, as fully as if all such Franchisee's Obligations were directly owing to Franchisor by such Franchisee. Franchisee further waives any defense arising by reason of any disability or other defense (other than the defense that the Franchisee's Obligations shall have been fully and finally performed and indefeasibly paid) of any other Obligor or by reason of the cessation from any cause whatsoever of the liability of Obligor in respect thereof.

17.2.5 To the fullest extent permitted by law, Franchisee absolutely, unconditionally, knowingly, and expressly waives: (i) any rights to assert against Franchisor any defense (legal or equitable), set-off, counterclaim, or claim which such Franchisee may now or at any time hereafter have against any other Obligor or any other party liable to Franchisor; (ii) any defense, set-off, counterclaim, or claim, of any kind or nature, arising directly or indirectly from the present or future lack of perfection, sufficiency, validity, or enforceability of the Franchisee's Obligations or any security therefor; (iii) any defense such Franchisee has to performance hereunder, and any right such Franchisee has to be exonerated, provided by Sections 2819, 2822, or 2825 of the California Civil Code, or otherwise, arising by reason of: the impairment or suspension of Franchisor's rights or remedies against any other Obligor; the alteration by Franchisor of the Franchisee's Obligations; any discharge of the Franchisee's Obligations to Franchisor by operation of law as a result of Franchisor's intervention or omission; or the acceptance by Franchisor of anything in partial satisfaction of the Franchisee's Obligations; (iv) the benefit of any statute of limitations affecting such Franchisee's liability hereunder or the enforcement thereof, and any act which shall defer or delay the operation of any statute of limitations applicable to the Franchisee's Obligations shall similarly operate to defer or delay the operation of such statute of limitations applicable to such Franchisee's liability hereunder.

17.2.6 To the fullest extent permitted by law, Franchisee absolutely, unconditionally, knowingly, and expressly waives any defense arising by reason of or deriving from (i) any claim or defense based upon an election of remedies by Franchisor including any defense based upon an election of remedies by Franchisor under the provisions of Sections 580a, 580b, 580d, and 726 of the California Code of Civil Procedure or any similar law of California or any other jurisdiction; or (ii) any election by Franchisor under Bankruptcy Code Section 1111 (b) to limit the amount of, or any collateral securing, its claim against any other Obligor.

17.2.7 Without limiting the generality of any other waiver or other provision set forth in this Agreement, and pursuant to the provisions of California Civil Code Section 2856, to the fullest extent permitted by law, Franchisee waives all rights and defenses that any such Franchisee may have because the Franchisee's Obligations are secured by real property. This means, among other things: (i) Franchisor may collect from Franchisee without first foreclosing on any real or personal property collateral pledged by any other Obligor to secure the Franchisee's Obligations; (ii) if Franchisor forecloses on any real property collateral pledged by any other Obligor to secure the Franchisee's Obligations, then (1) the amount of the Franchisee's Obligations may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price and (2) Franchisor may collect from such Franchisee even if Franchisor, by foreclosing on the real property pledged as collateral, has destroyed any right that such Franchisee may have to collect from such other Obligor. This is an unconditional and irrevocable waiver of any rights and defenses such Franchisee may have

because the Franchisee's Obligations are secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure.

18. RIGHTS AND DUTIES UPON EXPIRATION OR TERMINATION

18.1 Actions to be Taken

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

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

18.1.2 cease to use the Trade Secrets or other Confidential Information, the System and the Marks including, without limitation, all signs, slogans, symbols, logos, advertising materials, stationery, forms and any other items which display or are associated with the Marks and immediately discontinue domain names, e-mail addresses, Internet key word purchases, social network pages, videos and any other publication on the Internet using the Marks, including Facebook, Twitter, YouTube, Pinterest, Instagram, or other social media, and ensure the removal of any such uses from all such sites/media. Franchisee will instruct in writing all online directories search engines, and other advertising publishers as necessary to take down and remove any directory listings and advertisements for Franchisee containing the Marks and will not use or authorize the use of links or similar reference devices associated with any use of the Marks. Franchisee will deliver copies of such instructions to Franchisor within three (3) days of the termination or expiration of this Agreement, and hereby authorizes Franchisor to deliver such notices and instructions as applicable, if Franchisee fails to do so within such three (3) day period.

18.1.3 upon demand by Franchisor, immediately assign (or, if an assignment is prohibited, sublease for the full remaining term, and on the same terms and conditions as Franchisee's lease) its interest in the lease then in effect for the Approved Location to Franchisor and Franchisee shall furnish Franchisor with evidence satisfactory to Franchisor of compliance with this obligation within thirty (30) days after termination or expiration of this Agreement, and Franchisor has the right to pay rent and other expenses directly to the party to whom such payment is ultimately due;

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

18.1.5 pay all sums owing to Franchisor and any Affiliate. In the event of termination for any default of Franchisee, such sums shall include, but not be limited to, all damages, costs and expenses, including reasonable attorneys' fees, including attorneys' fees with respect to litigation, arbitration, appellate or bankruptcy proceedings, unpaid Royalty Fees, and any other amounts due to Franchisor or any Affiliate;

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

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

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

18.1.9 comply with all other applicable provisions of this Agreement.

18.2 Post-Termination Covenant Not to Compete

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

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

18.2.1.2 to induce Franchisor to grant a Franchise to Franchisee; and

18.2.1.3 to allow Franchisor an opportunity to rebrand the market without unfair competition from a former franchisee.

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

18.2.2.1 if Franchisee has elected to operate a Lee's Sandwiches Baguette Factory Production Unit or a Lee's Sandwiches Production Unit, own an interest in, finance, manage, operate or provide services to any Competitive Business located or operating (a) within a fifty (50) mile radius of the Approved Location or within the Protected Territory (whichever is greater), or (b) within a fifty (50) mile radius of the location of any other Lee's Sandwiches Business in existence at the time of termination or expiration; or

18.2.2.2 if Franchisee has elected to operate a Lee's Sandwiches Non-Production Unit, own an interest in, finance, manage, operate or provide services to any Competitive Business located or operating (a) within a twelve (12) mile radius of the Approved Location or within the Protected Territory (whichever is greater), or (b) within a twelve (12) mile radius of the location of any other Lee's Sandwiches Business in existence at the time of termination or expiration; or

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

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

18.3 Unfair Competition

If Franchisee operates any other business, Franchisee shall not use any reproduction, counterfeit, copy or colorable imitation of the Marks, either in connection with such other business or the promotion thereof, that is likely to cause confusion, mistake or deception, or that is likely to dilute Franchisor's rights in the Marks. Franchisee shall not utilize any designation of origin, description or representation that suggests or represents an association or connection with Franchisor. This Section is not intended as an approval of Franchisee's right to operate other businesses and in no way is it intended to contradict Sections 7, 18.1 or 18.2. If Franchisor elects not to receive an assignment or sublease of the Approved Location, Franchisee shall make such modifications or alterations to the Approved Location (including changing telephone and facsimile numbers) immediately upon termination or expiration of this Agreement as may be necessary to prevent any association between Franchisor or the System and any business subsequently operated by Franchisee or others at the Approved Location. Franchisee shall make such specific additional changes to the Approved Location as Franchisor may reasonably request for that purpose including, without limitation, removal of all physical and structural features identifying or distinctive to the System. If Franchisee fails or refuses to comply with the requirements of this Section, Franchisor has the right to enter upon the Approved Location for the purpose of making or causing to be made such changes as may be required, at the expense of Franchisee, which expense Franchisee shall pay upon demand.

18.4 Franchisor's Option to Purchase Certain Business Assets

Franchisor has the right (but not the duty, subject to applicable law), for a period of thirty (30) days after termination or expiration of this Agreement, to purchase any or all assets of the Franchised Business including leasehold improvements, equipment, supplies and other inventory. The purchase price shall be (i) cost less twenty percent (20%) for any or all of Franchisee's product inventory; and (ii) the lower of Franchisee's cost or fair market value for any other assets of the Franchised Business, including signs, equipment, supplies, advertising materials, forms, and software. If the parties cannot promptly agree on fair market value, the fair market value will be determined by an independent appraiser selected by Franchisor, and the appraiser's determination shall be final and binding. If Franchisor elects to exercise this option to purchase, it can assign its rights to a designee and also has the right to set off all amounts due from Franchisee under this Agreement, if any, against the purchase price.

18.5 Survival of Certain Provisions

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

19. TRANSFERABILITY OF INTEREST

19.1 Transfer by Franchisor

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

19.2 Transfer by Franchisee to a Third Party

The rights and duties of Franchisee as set forth in this Agreement, and the Franchise herein granted, are personal to Franchisee (or its owners), and Franchisor has entered into this Agreement in reliance upon Franchisee's personal or collective skill and financial ability. Accordingly, neither Franchisee nor any holder of a legal or beneficial interest in Franchisee may sell, assign, convey, give away, pledge, mortgage, sublicense or otherwise transfer, whether by operation of law or otherwise, any interest in this Agreement, the Franchise granted hereby, the Approved Location used in operating the Franchised Business, its assets or any part or all of the ownership interest in Franchisee without the prior written approval of Franchisor. Any purported transfer without such approval shall be null and void and shall constitute a material breach of this Agreement. If Franchisee is in compliance with this Agreement, Franchisor's consent to such transfer shall be conditioned upon the satisfaction of the following requirements:

19.2.1 Franchisee has complied with the requirements set forth in Section 20;

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

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

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

19.2.5 the transferee and, if Franchisor requires, all persons owning any interest in the transferee, have executed Franchisor's choice of the following, at Franchisor's sole discretion and as Franchisor shall direct: (i) Franchisor's then-current franchise agreement for new franchisees for the term specified in such agreement, which agreement may contain terms that are substantially different from this Agreement, including

different Royalty Fee and Marketing Fund Contribution rates and other material provisions, except that an initial franchise fee shall not be charged; and/or (ii) an assignment agreement with Franchisee in a form satisfactory to Franchisor, under which the transferee shall assume all of Franchisee's obligations under this Agreement for the balance of its term; and (iii) such personal guarantees and ancillary documents as Franchisor then customarily requires;

19.2.6 the transferee has executed a general release in Franchisor's then current form, releasing any and all claims against Franchisor, its Affiliates, and their respective officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities), with respect to any representations regarding the Franchise or the business conducted pursuant thereto or any other matter that may have been made to the transferee by Franchisee;

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

19.2.8 If Franchisee has elected to operate a Lee's Sandwiches Baguette Factory Production Unit or a Lee's Sandwiches Production Unit, Franchisee, or the transferee, has paid to Franchisor a transfer fee in the amount of FIFTEEN THOUSAND DOLLARS (\$15,000.00); or if Franchisee has elected to operate a Lee's Sandwiches Non-Production Unit, Franchisee, or the transferee, has paid to Franchisor a transfer fee in the amount of TEN THOUSAND DOLLARS (\$10,000.00);

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

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

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

19.2.12 Franchisee has and, if Franchisee is an entity, all of the holders of a legal and beneficial interest in Franchisee have executed and delivered to Franchisor a nondisclosure and non-competition agreement in a form satisfactory to Franchisor and in substance the same as the nondisclosure and non-competition covenants contained in Sections 7 and 18;

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

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

19.3 Transfer to a Controlled Entity

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

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

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

19.3.1.3 all obligations of Franchisee to Franchisor or any Affiliate are fully paid and satisfied; provided, however, that neither Franchisee nor the Controlled Entity shall be required to pay a transfer fee as required pursuant to Section 19.2.8;

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

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

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

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

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

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

19.4 Franchisor's Disclosure to Transferee

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

19.5 For-Sale Advertising

Franchisee shall not, without prior written consent of Franchisor, place in, on or upon the location of the Franchised Business, or in any communication media, any form of advertising relating to the sale of the Franchised Business or the rights granted hereunder.

19.6 Transfer by Death or Incapacity

19.6.1 Upon the death or Incapacity of Franchisee (if Franchisee is an individual) or any holder of a legal or beneficial interest in Franchisee (if Franchisee is a business entity), the appropriate representative of such person (whether administrator, personal representative or trustee) shall, within a reasonable time not exceeding one hundred eighty (180) days following such event, transfer such individual's interest in the Franchised Business or in Franchisee to a third party approved by Franchisor. Such transfers, including transfers by will or inheritance, shall be subject to the conditions for assignments and transfers contained in this Agreement, unless prohibited by the laws of the state wherein Franchisee resided, with such choice of law provision being applicable only for this Section 19.6. During such one hundred eighty (180) day period, the Franchised Business must remain at all times under the primary management of a Designated Owner who otherwise meets Franchisor's management qualifications.

19.6.2 Following such a death or Incapacity of such person as described in this Section 19.6, if necessary in Franchisor's discretion, Franchisor shall have the right, but not the obligation, to assume operation of the Franchised Business until the deceased or incapacitated owner's interest is transferred to a third party approved by Franchisor. Franchisor may charge a management fee as stated in the Confidential Operations Manual from time to time, currently equal to FIVE HUNDRED DOLLARS (\$500.00) per day, and Franchisor shall be entitled to reimbursement of any expenses Franchisor incurs that are not paid out of the operating cash flow of the Franchised Business.

20. RIGHT OF FIRST REFUSAL

20.1 Submission of Offer

If Franchisee, or any of its owners, proposes to sell or otherwise transfer (including a transfer by death or Incapacity pursuant to Section 19.6) the Franchised Business (or any of its assets outside of the normal course of business), any ownership interest in Franchisee or any ownership interest in the Franchise granted hereunder, Franchisee shall obtain and deliver a *bona fide*, executed written offer or proposal to purchase, along with all pertinent documents including any contract or due diligence materials, to Franchisor, except with regards to a sale or transfer to a family member. The offer must apply only to an approved sale of the assets or interests listed above and may not include any other property or rights of Franchisee or any of its owners.

20.2 Franchisor's Right to Purchase

Franchisor shall, for thirty (30) days from the date of delivery of all such documents, have the right, exercisable by written notice to Franchisee, to purchase the offered assets or interest for the price and on the same terms and conditions contained in such offer communicated to Franchisee. Franchisor has the right to substitute cash for the fair market value of any form of payment proposed in such offer. Franchisor's credit shall be deemed at least equal to the credit of any proposed buyer. After providing notice to Franchisee of Franchisor's intent to exercise this right of first refusal, Franchisor shall have up to sixty (60) days to close the purchase. Franchisor shall be entitled to receive from Franchisee all customary representations and warranties given by Franchisee as the seller of the assets or such ownership interest or, at Franchisor's election, such representations and warranties contained in the proposal.

20.3 Non-Exercise of Right of First Refusal

If Franchisor does not exercise its right of first refusal within thirty (30) days from the date of delivery of all such documents, the offer or proposal may be accepted by Franchisee or any of its owners, subject to Franchisor's prior written approval as required by Section 19.2. Should the sale fail to close within one hundred twenty (120) days after the offer is delivered to Franchisor, Franchisor's right of first refusal shall renew and be implemented in accordance with this Section.

21. BENEFICIAL OWNERS OF FRANCHISEE

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

22. RELATIONSHIP AND INDEMNIFICATION

22.1 Relationship

This Agreement is purely a contractual relationship between the parties and does not appoint or make Franchisee an agent, legal representative, joint venturer, partner, joint employer or co-employer, employee, servant or independent contractor of Franchisor for any purpose whatsoever. Franchisee may not represent or imply to third parties that Franchisee is an agent of Franchisor, and Franchisee is in no way authorized to make any contract, agreement, warranty or representation on behalf of Franchisor, or to create any obligation, express or implied, on Franchisor's behalf. During the term of this Agreement, and any extension or renewal hereof, Franchisee shall hold itself out to the public only as a franchisee and an owner of the Franchised Business operating the Franchised Business independently pursuant to a franchise from Franchisor. Franchisee must comply with Franchisor's requirements for identifying the Franchised Business and its operations as independently owned and operated and will include notices of independent ownership on forms, business cards, stationery, advertising, signs, media postings and other materials and publications as Franchisor requires. Franchisee shall be responsible for all acts and omissions of Franchisee's employees, managers, independent contractors, and representatives, regardless of whether or not Franchisee had actual knowledge of such act or omission. Franchisee is and shall remain at all times completely independent and in business for itself, and shall have no right or interest in any of Franchisor's property or business. Franchisee is free to conduct its business in compliance with mandatory System Standards as it deems best in providing the Franchised Business products and services in accordance with this Agreement, independently of the supervision, management and control of Franchisor. Franchisee is solely responsible for hiring, firing,

discipline and supervision of Franchisee's employees, the terms and conditions of their employment and all other matters related to their employment. Franchisor has no management of, control over or involvement in any such employment matters. At no time will Franchisee's employees be, or be deemed to be, Franchisor's employees or the employees of any Franchisor Affiliate. Franchisee commits to ensure that each of Franchisee's employees are advised of and understand Franchisee's relationship with Franchisor, as described herein. Under no circumstances shall Franchisor be liable for any act, omission, contract, debt, nor any other obligation of Franchisee. Franchisor shall in no way be responsible for any injuries to persons or property resulting from the operation of the Franchised Business. Any third party contractors and vendors retained by Franchisee to convert or construct the premises are independent contractors of Franchisee alone.

22.2 Standard of Care

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

22.3 Indemnification

Franchisee shall notify Franchisor in writing of any and all claims or demands against Franchisee, the Franchised Business or Franchisor within three (3) days after Franchisee receives actual notice of the claim or demand. Franchisee will defend with counsel of Franchisor's choosing, indemnify and hold Franchisor and Franchisor's Affiliates and each of their respective agents, officers, partners, members, shareholders, directors, employees, agents and representatives (the "Indemnified Parties") harmless from all fines, suits, proceedings, claims, demands, actions, losses, damages, costs, fees (including Attorneys' Fees and related legal costs and expenses), governmental/administrative actions or proceedings and any other liability of any kind or nature, however arising, growing out of or otherwise connected with and/or related to any Franchisee breach of this Agreement, the ownership or operation of Franchisee's Franchised Business, an asserted breach of lease or violation of any law or regulation or any act, error and/or omission by Franchisee and/or any Franchisee Affiliates, agents, officers, partners, members, shareholders, directors, employees or representatives. Franchisor will have the right to control all litigation to which it is a party and to defend and/or settle any claim in such manner as Franchisor considers appropriate, without affecting Franchisor's or the Indemnified Parties' rights under this indemnity. Franchisee acknowledges that this obligation to indemnify and reimburse Indemnified Parties for costs and expenses, as described above, applies to any action or proceeding or legal matter of any kind in which one or more Indemnified Parties is/are named or involved and which also involves this Agreement and/or Franchisee's Franchised Business, including any administrative actions or investigations and appellate, post judgment or bankruptcy proceedings. Franchisee further acknowledges that this obligation to indemnify and reimburse Indemnified Parties for costs and expenses, as described above, expressly applies to claims from persons employed by or providing services to Franchisee involving allegations of a violation of the Fair Labor Standards Act or a state wage-hour law, the Occupational Safety and Health Act or a state analog, any state workers' compensation act, any state unemployment compensation benefit law or regulation, or any other federal, state or local employment or employee benefit law or regulation, and regardless of the basis of the alleged liability, whether joint employer, ostensible agency, vicarious liability or otherwise. All amounts payable by Franchisee under this Section 22.3 are due upon demand. Franchisee is entitled to appoint separate independent counsel to represent Franchisee's interests

in such suits, proceedings, or claims, all at Franchisee's expense. The obligations provided under this Section 22.3 shall expressly survive the termination or expiration of this Agreement.

22.4 Right to Retain Counsel

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

23. GENERAL CONDITIONS AND PROVISIONS

23.1 No Waiver

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

23.2 Injunctive Relief

As any breach by Franchisee of any of the restrictions contained in Sections 6, 7 and 18 would result in irreparable injury to Franchisor, and as the damages arising out of any such breach would be difficult to ascertain, in addition to all other remedies provided by law or in equity, Franchisor shall be entitled to seek injunctive relief (whether a restraining order, a preliminary injunction or a permanent injunction) against any such breach, whether actual or contemplated, without the necessity of posting security or bond and Franchisee shall be responsible for Franchisor's reasonable attorneys' fees incurred in pursuing the same. Franchisor's right to seek injunctive relief will not affect the parties' waiver of jury trial and covenant to arbitrate all disputes in accordance with Section 24.7. Franchisor's rights herein shall include pursuing injunctive relief through arbitration or in a state or federal court.

23.3 Notices

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

communication system; (c) two (2) business days after being sent via guaranteed overnight delivery by a commercial courier service; or (d) five (5) business days after being sent by Registered Mail, return receipt requested. All notices shall be sent to Franchisee at the address listed on page one (1) of this Agreement or such other address as Franchisee may designate in writing to Franchisor. Either party may change its address by a written notice sent in accordance with this Section 23.3. All notices, payments and reports required by this Agreement shall be sent to Franchisor at the following address:

Lee's Sandwiches International, Inc.
Attn: President
660 E. Gish Road
San Jose, California 95112

23.4 Cost of Enforcement or Defense

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

23.5 Unlimited Guaranty and Assumption of Obligations

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

23.6 Approvals

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

23.7 Entire Agreement

This Agreement and all exhibits to this Agreement constitute the entire agreement between the parties and supersede any and all prior negotiations, understandings, representations and agreements. Nothing in this or in any related agreement, however, is intended to disclaim the representations Franchisor made in the Franchise Disclosure Document that Franchisor furnished to Franchisee. Franchisee acknowledges that Franchisee is entering into this Agreement as a result of its own independent investigation of the Franchised Business and not as a result of any representations made by any of Franchisor's shareholders, officers, directors, employees, agents, representatives, independent contractors, or franchisees that are contrary to the terms set forth in this Agreement, or in any disclosure document, prospectus or other similar document required or permitted to be given to Franchisee pursuant to applicable law.

23.8 Severability and Modification

23.8.1 Except as noted in Section 23.8.2 below, each paragraph, part, term and provision of this Agreement shall be considered severable. If any paragraph, part, term or provision herein is ruled to be unenforceable, unreasonable or invalid, such ruling shall not impair the operation of or affect the remaining portions, paragraphs, parts, terms and provisions of this Agreement, and the latter shall continue to be given full force and effect and bind the parties; and such unenforceable, unreasonable or invalid paragraphs, parts, terms or provisions shall be deemed not part of this Agreement. If Franchisor determines that a finding of invalidity adversely affects the basic consideration of this Agreement, Franchisor has the right to, at its option, terminate this Agreement.

23.8.2 Notwithstanding the above, each of the covenants contained in Sections 7 and 18 shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of any such covenant is held to be unenforceable, unreasonable or invalid, then it shall be amended to provide for limitations on disclosure of Trade Secrets or other Confidential Information or on competition to the maximum extent provided or permitted by law.

23.9 Construction

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

23.10 Force Majeure

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

23.11 Timing

Time is of the essence. Except as set forth in Section 23.1, failure to perform any act within the time required or permitted by this Agreement shall be a material breach.

23.12 Withholding Payments

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

23.13 Further Assurances

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

23.14 Third-Party Beneficiaries

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

23.15 Multiple Originals

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

24. DISPUTE RESOLUTION

24.1 Choice of Law

Except to the extent of the applicability of the Federal Arbitration Act and related federal preemption requirements, this Agreement and all other matters concerning this Agreement and/or Franchisor (or any Franchisor Affiliate) and Franchisee or Franchisee owners, as applicable, their relationship and/or respective rights and obligations, will be governed by, and construed and enforced in accordance with, the laws of the state of California, without giving effect to any conflict of laws; PROVIDED, i) the provisions of the California Franchise Relations Act and the California Franchise Investment Law and any other California statute, regulation or law regarding franchise offers and sales, business opportunities, seller assisted marketing plans and/or franchise relationships shall not apply unless jurisdictional, definitional and other requirements thereof are met independently of this Section; and ii) the provisions of Sections 7.1 through 7.3, 18.2 and 18.3 shall be construed and enforced in accordance with the laws of the state where the claimed breach of such Section(s) occurs. The Federal Arbitration Act shall govern all matters subject to arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency.

24.2 Consent to Jurisdiction

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

24.3 Cumulative Rights and Remedies

No right or remedy conferred upon or reserved to Franchisor or Franchisee by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be in addition to every other right or remedy. Nothing contained herein shall bar Franchisor's right to obtain injunctive relief against threatened conduct that may cause it loss or damages, including obtaining restraining orders and preliminary and permanent injunctions.

24.4 Limitations of Claims

To the fullest extent permitted by law, any claim concerning the Franchised Business or this Agreement or any related agreement will be barred unless an action for a claim is commenced within one (1) year from the date on which Franchisee or Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim. Neither party shall be able to toll this one (1) year time period based upon information known only to that party.

24.5 Limitation of Damages

Franchisee and Franchisor each waive, to the fullest extent permitted by law, any right or claim for any punitive or exemplary damages against the other and agree that if there is a dispute with the other, each will be limited to the recovery of actual damages sustained by it including reasonable accounting and legal and expert fees as provided in Section 23.4 and applicable injunctive relief as provided in this Section 24. Franchisee waives and disclaims any right to consequential damages in any action or claim against Franchisor concerning this Agreement or any related agreement. In any claim or action brought by Franchisee against Franchisor concerning this Agreement, Franchisee's contract damages shall not exceed and shall be limited to refund of Franchisee's Franchise Fee and Royalty Fees.

24.6 Waiver of Jury Trial and Class Actions

FRANCHISEE AND FRANCHISOR EACH IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, WHETHER AT LAW OR EQUITY, BROUGHT BY EITHER OF THEM, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW.

ANY ARBITRATION OR OTHER LEGAL PROCEEDING BETWEEN FRANCHISOR OR ANY FRANCHISOR AFFILIATE AND FRANCHISEE OR ANY FRANCHISEE AFFILIATE OR OWNER SHALL BE BROUGHT AS AN INDIVIDUAL CLAIM AND SHALL NOT BE ARBITRATED OR LITIGATED ON A CLASS-WIDE, CLASS ACTION OR CONSOLIDATED BASIS, TO THE FULLEST EXTENT PERMITTED BY LAW.

24.7 Arbitration

This Agreement evidences a transaction involving commerce and, therefore, the Federal Arbitration Act, Title 9 of the United States Code is applicable to the subject matter contained herein. Except for controversies or claims relating to intellectual property rights, including, but not limited to, Franchisor's Marks, copyrights or the unauthorized use or disclosure of Franchisor's Confidential Information, covenants against competition and other claims for injunctive relief, all disputes arising out of or relating to this

Agreement or to any other agreements between the parties, or with regard to interpretation, formation or breach of this or any other agreement between the parties, shall be settled by binding arbitration conducted in Santa Clara County, California, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. The proceedings will be held by a single arbitrator agreed upon by the parties or otherwise appointed by the Circuit Court for the State of California and located in Santa Clara County, California. The decision of the arbitrator will be final and binding upon the parties. Judgment upon the award rendered by the arbitrator may be entered in any court having personal and subject matter jurisdiction.

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

25. ACKNOWLEDGMENTS

25.1 Receipt of this Agreement and the Franchise Disclosure Document

No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

Franchisee represents and acknowledges that it has received this Agreement and Franchisor's Franchise Disclosure Document. Franchisee represents and acknowledges that it has received, at least fourteen (14) calendar-days prior to the date on which this Agreement was executed, the disclosure document required by the Trade Regulation Rule of the Federal Trade Commission entitled Disclosure Requirements and Prohibitions Concerning Franchising.

25.2 Consultation by Franchisee

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

25.3 True and Accurate Information

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

25.4 No Violation of Other Agreements

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

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

LEE'S SANDWICHES INTERNATIONAL, INC.:

By: _____

Name printed: _____

Title: _____

FRANCHISEE: _____
(type/print name)

By: _____

Name: _____

Title: _____

[or, if an individual]

Signed: _____

Name printed: _____

EXHIBIT 1 TO THE FRANCHISE AGREEMENT

GENERAL RELEASE (SAMPLE)

(subject to change by Franchisor)

THIS GENERAL RELEASE ("Release") is made and given on this ____ day of _____, 20____ by _____, ("Releasor") an individual/corporation/ limited liability company/partnership with a principal address of _____, in consideration of the event noted below and other good and valuable consideration, the adequacy of which is hereby acknowledged: (check applicable provision)

_____ Consent from Lee's Sandwiches International, Inc. ("FRANCHISOR"), a California corporation, to RELEASOR'S assignment of its rights and duties under the Franchise Agreement; or

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

If RELEASOR is a corporation or limited liability company, "RELEASOR" shall be deemed to include RELEASOR'S owners, namely: _____ ("Owners").

1. General Release

Releasor, for itself, himself or herself, and, if applicable, for Releasor's Affiliates, if any, and for each of their respective officers, directors, shareholders, owners, members, managers, trustees, partners, employees, agents, heirs, successors and assigns (Releasor and such other persons are collectively referred to as the "Releasing Parties") hereby release and forever discharge FRANCHISOR and FRANCHISOR'S Affiliates, and each of their respective officers, directors, shareholders, owners, members, managers, trustees, partners, employees, agents, heirs, successors and assigns, in their corporate and individual capacities (collectively the "Released Parties"), from any and all causes of action, at law or in equity, suits, debts, liens, defaults under contracts, leases, agreements or promises, liabilities, claims, demands, damages, losses, costs or expenses, of any nature whatsoever, howsoever arising, **known or unknown**, suspected or unsuspected, anticipated or unanticipated, fixed or contingent, past or present, that the Releasing Parties, or any of them, had, now have or may have, upon or by reason of any matter, cause or thing whatsoever from the beginning of time to the date of this Release (the "Claims"), it being the intention of the parties that this Release be unqualifiedly general in scope and effect and that any such Claims are hereby forever canceled and forgiven.

2. Waiver of Civil Code Section 1542

This Release is intended by Releasor to be a full and unconditional general release, as that phrase is used and commonly interpreted, and to constitute a full, unconditional and final accord and satisfaction, extending to Claims of any nature. Releasor, for itself, himself or herself, for each of the other Releasing Parties hereby expressly, voluntarily and knowingly waives, relinquishes and abandons each and every right, protection and benefit to which Releasor or any of the Releasing Parties would be entitled, now or at any time hereafter under Section 1542 of the Civil Code of the State of California, as well as under any other statutes or common law principles of similar effect to said Section 1542, whether now or hereinafter existing under the laws of California or any other applicable federal and state law with jurisdiction over the parties' relationship. Releasor, for itself, himself or herself, for each of the other Releasing Parties, acknowledges that Section 1542 of the Civil Code of the State of California provides as follows: "A

GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS/HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT IF KNOWN BY HIM/HER, WOULD HAVE MATERIALLY AFFECTED HIS/HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.”

3. RELEASOR, BEING AWARE OF THIS CODE SECTION, HEREBY VOLUNTARILY AND EXPRESSLY WAIVES ALL RIGHTS THEREUNDER. IN MAKING THIS WAIVER, RELEASOR ACKNOWLEDGES THAT CLAIMS OR FACTS IN ADDITION TO OR DIFFERENT FROM THOSE WHICH ARE NOW KNOWN OR BELIEVED TO EXIST WITH RESPECT TO THE MATTERS MENTIONED HEREIN MAY LATER BE DISCOVERED AND THAT IT IS RELEASOR’S INTENTION TO HEREBY FULLY AND FOREVER SETTLE AND RELEASE ANY AND ALL MATTERS, REGARDLESS OF THE POSSIBILITY OF LATER DISCOVERED CLAIMS OR FACTS. THIS RELEASE IS AND SHALL BE AND REMAIN A FULL, COMPLETE AND UNCONDITIONAL GENERAL RELEASE. RELEASOR ACKNOWLEDGES AND AGREES THAT THE FOREGOING WAIVER OF SECTION 1542 IS AN ESSENTIAL, INTEGRAL AND MATERIAL TERM OF THIS RELEASE AND THAT IT HE OR SHE IS ENTERING INTO THIS RELEASE AFTER HAVING HAD AMPLE OPPORTUNITY TO REVIEW IT WITH THEIR ATTORNEY.

4. Dispute Resolution. Releasor agrees to be bound by the dispute resolution provisions attached as **Schedule A** to this Release, which are incorporated herein by this reference.

5. Release Not Admission. Releasor understands and agrees that the giving or acceptance of this Release and the agreements contained herein shall not constitute or be construed as an admission of any liability by Company or Company or an admission of the validity of any claims made by or against Company or Company.

6. Authority of Parties. Each person executing this Release on behalf of a party hereto warrants and represents that he or she is duly authorized to execute this Release on behalf of such party.

7. Independent Investigation. Releasor represents and warrants that Releasor has read and fully understand the terms and conditions of this Release and has had an opportunity to seek the advice of independent legal counsel before executing this Release.

8. No Prior Assignments. Releasor represents and warrants that Releasor has not previously assigned or transferred, or attempted to assign or transfer, to any third party any of the Claims which are the subject of this Release, all of such Claims being released.

9. Definitions. All capitalized terms used in this Release that are not defined in the body of this Release shall have the same meaning assigned to them in the Franchise Agreement, and the parties hereby incorporate those definitions by reference.

10. Further Assurances. Each party agrees to execute and deliver such additional documents and instruments and to perform such additional acts as may be necessary or appropriate to effectuate, carry out and perform the terms, provisions and conditions of this Agreement.

11. No Modifications. This General Release shall not be amended or modified unless such amendment or modification is in writing and is signed by RELEASOR and FRANCHISOR.

12. The General Release does not apply with respect to claims arising under the Washington Franchise Investment Protection Act, RCW 19.100, and the rules adopted thereunder.

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

Date: _____ (**“Effective Date”**)

(type/print company name)

Signed: _____

By: _____
(print signer’s name)

Title: _____

Owners:

Signed: _____

Name printed: _____

Signed: _____

Name printed: _____

(or, if an **individual** is the Releasor)

Signed: _____

Name printed: _____

ACKNOWLEDGMENT

State of _____)
) ss
County of _____)

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

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

Notary Public
My Commission expires:

(NOTARIAL SEAL)

SCHEDULE A TO EXHIBIT 1 TO FRANCHISE AGREEMENT

DISPUTE RESOLUTION

1. Choice of Law

Except to the extent of the applicability of the Federal Arbitration Act and related federal preemption requirements, this Agreement and all other matters concerning this Agreement and/or Franchisor (or any Franchisor Affiliate) and Releasor or Releasor owners, as applicable, their relationship and/or respective rights and obligations, will be governed by, and construed and enforced in accordance with, the laws of the state of California, without giving effect to any conflict of laws; PROVIDED, i) the provisions of the California Franchise Relations Act and the California Franchise Investment Law and any other California statute, regulation or law regarding franchise offers and sales, business opportunities, seller assisted marketing plans and/or franchise relationships shall not apply unless jurisdictional, definitional and other requirements thereof are met independently of this Section; and ii) the provisions of Sections 7.1 through 7.3, 18.2 and 18.3 shall be construed and enforced in accordance with the laws of the state where the claimed breach of such Section(s) occurs. The Federal Arbitration Act shall govern all matters subject to arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency.

2. Consent to Jurisdiction

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

3. Cumulative Rights and Remedies

No right or remedy conferred upon or reserved to Franchisor or Releasor by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be in addition to every other right or remedy. Nothing contained herein shall bar Franchisor's right to obtain injunctive relief against threatened conduct that may cause it loss or damages, including obtaining restraining orders and preliminary and permanent injunctions.

4. Limitations of Claims

To the fullest extent permitted by law, any claim concerning the Franchised Business or this Agreement or any related agreement will be barred unless an action for a claim is commenced within one (1) year from the date on which Releasor or Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim. Neither party shall be able to toll this one (1) year time period based upon information known only to that party.

5. Limitation of Damages

Releasor and Franchisor each waive, to the fullest extent permitted by law, any right or claim for any punitive or exemplary damages against the other and agree that if there is a dispute with the other, each will be limited to the recovery of actual damages sustained by it including reasonable accounting and legal and expert fees

as provided in Section 23.4 of the Franchise Agreement. Releasor waives and disclaims any right to consequential damages in any action or claim against Franchisor concerning this Agreement or any related agreement. In any claim or action brought by Releasor against Franchisor concerning this Agreement, Releasor's contract damages shall not exceed and shall be limited to refund of Franchise Fee and Royalty Fees paid by Releasor.

6. Waiver of Jury Trial and Class Actions

RELEASOR AND FRANCHISOR EACH IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, WHETHER AT LAW OR EQUITY, BROUGHT BY EITHER OF THEM, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW.

ANY ARBITRATION OR OTHER LEGAL PROCEEDING BETWEEN FRANCHISOR OR ANY FRANCHISOR AFFILIATE AND RELEASOR OR ANY RELEASOR AFFILIATE OR OWNER SHALL BE BROUGHT AS AN INDIVIDUAL CLAIM AND SHALL NOT BE ARBITRATED OR LITIGATED ON A CLASS-WIDE, CLASS ACTION OR CONSOLIDATED BASIS, TO THE FULLEST EXTENT PERMITTED BY LAW.

7. Arbitration

This Agreement evidences a transaction involving commerce and, therefore, the Federal Arbitration Act, Title 9 of the United States Code is applicable to the subject matter contained herein. Except for controversies or claims relating to intellectual property rights, including, but not limited to, Franchisor's Marks, copyrights or the unauthorized use or disclosure of Franchisor's Confidential Information, covenants against competition and other claims for injunctive relief, all disputes arising out of or relating to this Agreement or to any other agreements between the parties, or with regard to interpretation, formation or breach of this or any other agreement between the parties, shall be settled by binding arbitration conducted in Santa Clara County, California, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. The proceedings will be held by a single arbitrator agreed upon by the parties or otherwise appointed by the Circuit Court for the State of California and located in Santa Clara County, California. The decision of the arbitrator will be final and binding upon the parties. Judgment upon the award rendered by the arbitrator may be entered in any court having personal and subject matter jurisdiction.

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

EXHIBIT 2-A TO THE FRANCHISE AGREEMENT

NONDISCLOSURE AND NON-COMPETITION AGREEMENT (FOR NON-CALIFORNIA FRANCHISES ONLY)

This "Agreement" made as the _____ day of _____, 20_____, is by and between _____, ("Franchisee") (d/b/a a Lee's Sandwiches Franchise) and _____ ("Individual").

W I T N E S S E T H:

WHEREAS, Franchisee is a party to that certain Franchise Agreement dated _____, 20____ ("Franchise Agreement") by and between Franchisee and Lee's Sandwiches International, Inc. ("Company"); and

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

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

WHEREAS, Individual understands the necessity of not disclosing any such information to any other party or using such information to compete against Company, Franchisee or any other franchisee of Company in any business that offers or provides for (or grants franchises or licenses to others to operate a business that offers or provides for) the production, distribution or retail sale of baguettes or croissants; the retail sale of Asian and/or European sub-style sandwiches; or the retail sale of specialty coffee, smoothies, ice cream or Delimanjoo cakes when revenues received in connection with one or more of any such food or beverage items generally represent twenty percent (20%) or more of such business's monthly gross sales (a "Competitive Business"). The term "Competitive Business" shall not apply to any business operated by Franchisee under a Franchise Agreement with Company.

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

1. Trade Secrets and Confidential Information

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

a) For the purposes of this Agreement, a "Trade Secret" is information in any form (including, but not limited to, materials and techniques, technical or non-technical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans, passwords, lists of actual or potential customers or suppliers) related to or used in Lee's Sandwiches Businesses that is not commonly known by or available to the public and that information: (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

b) For the purposes of this Agreement "Confidential Information" means information used in or related to Lee's Sandwiches Businesses that is not commonly known by or available to the public, including, without limitation, Franchisor's Trade Secrets and information contained in the Confidential Operations Manual and training guides and materials. In addition, any other information identified as confidential when delivered by Franchisee shall be deemed Confidential Information. Confidential Information shall not include, however, any information that: (i) is now or subsequently becomes generally available to the public through no fault of Individual; (ii) Individual can demonstrate was rightfully in its possession, without obligation of nondisclosure, prior to disclosure pursuant to this Agreement; (iii) is independently developed without the use of any Confidential

Information; or (iv) is rightfully obtained from a third party who has the right, without obligation of nondisclosure, to transfer or disclose such information.

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

2. Confidentiality/Nondisclosure

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

b) Individual’s obligations under paragraph 2(a) of this Agreement shall continue in effect after termination of Individual’s relationship with Franchisee, regardless of the reason or reasons for termination, and whether such termination is voluntary or involuntary, and Franchisee is entitled to communicate Individual’s obligations under this Agreement to any future customer or employer to the extent deemed necessary by Franchisee for protection of its rights hereunder and regardless of whether Individual or any of its affiliates or assigns becomes an investor, partner, joint venturer, broker, distributor or the like in a Lee’s Sandwiches Business.

3. Non-Competition

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

b) During the term of Individual’s relationship with Franchisee, Individual shall not, directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity, carry on, be engaged in or take part in, render services to, or own or share in the earnings of any Competitive Business anywhere within the United States.

c) Subject to the exceptions below, and except as prohibited by law or as otherwise approved in writing by Franchisor, for a two (2) year period following the termination of Individual’s relationship with Franchisee or the involvement in a Lee’s Sandwiches Franchise, whichever occurs first, and regardless of the cause, Individual shall not, directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity, carry on, be engaged in or take part in, render services to, or own or share in the earnings of any Competitive Business within:

i) a fifty (50) mile radius of the Franchisee’s Approved Location, if such location is for Lee’s Sandwiches Baguette Factory Production Unit or a Lee’s Sandwiches Production Unit; a twelve (12) mile radius of the Franchisee’s Approved Location, if such location is for a Lee’s Sandwiches Non-Production Unit; or within Franchisee’s Protected Territory, whichever is greater; or

ii) within: a fifty (50) mile radius of any other Lee's Sandwiches Baguette Factory Production Unit or a Lee's Sandwiches Production Unit; or a twelve (12) mile radius of any other Lee's Sandwiches Non-Production Unit; of any other Lee's Sandwiches Business in existence at the time of the termination of Individual's relationship with Franchisee or involvement in a Lee's Sandwiches Franchise, whichever occurs first. For purposes of this Agreement, Franchisee's "Protected Territory" is defined as:

The following exceptions apply to this subsection (c): (1) the provisions in this subsection (c) are subject to and limited in scope and/or time by, applicable state law; (2) the prohibitions in this subsection (c) do not apply to any interests in or activities performed in connection with a Franchised Business; and (3) the prohibitions in this subsection (c) do not apply to an Individual's ownership of less than five percent (5%) beneficial interest in the outstanding securities of any publicly held corporation.

4. Reasonableness of Restrictions

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

5. Relief for Breaches of Confidentiality and Non-Competition

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

6. Miscellaneous

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

b) Except to the extent this Agreement or any particular dispute is governed by the U.S. Trademark Act of 1946 or other federal law, this Agreement shall be governed by and construed in accordance with the laws of the state in which Franchisee's principal place of business is located. The Federal Arbitration Act shall govern all matters subject to arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency.

c) Any action brought by either party, shall only be brought in the appropriate state or federal court located in or serving the County in which Franchisee's principle place of business is located; provided that if Company is a party to any such action then the action shall be brought in the appropriate state or federal

court located in or serving Santa Clara County, California. The parties waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision. Claims for injunctive relief may be brought by Company where Franchisee is located. This exclusive choice of jurisdiction and venue provision shall not restrict the ability of the parties to confirm or enforce judgments or arbitration awards in any appropriate jurisdiction.

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

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

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

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

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

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

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

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

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

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

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

FRANCHISEE:

By: _____

Its: _____

INDIVIDUAL:

Signature: _____

Name Printed: _____

EXHIBIT 2-B TO THE FRANCHISE AGREEMENT

NONDISCLOSURE AND NON-COMPETITION AGREEMENT (FOR CALIFORNIA FRANCHISES ONLY)

This "Agreement" made as of the ____ day of _____, 20____, is by and between _____, ("Franchisee") (d/b/a a Lee's Sandwiches Franchise) and _____ ("Individual"). The terms of this Addendum shall survive the termination or expiration of the Agreement.

W I T N E S S E T H:

WHEREAS, Franchisee is a party to that certain Franchise Agreement dated _____, 20____("Franchise Agreement") by and between Franchisee and Lee's Sandwiches International, Inc. ("Company"); and

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

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

WHEREAS, Individual understands the necessity of not disclosing any such information to any other party or using such information to compete against Company, Franchisee or any other franchisee of Company in any business (i) that offers or provides for (or grants franchises or licenses to others to operate a business that offers or provides) the production, distribution or retail sale of baguettes or croissants; the of Asian and/or European sub-style sandwiches; or the retail sale of specialty coffee, smoothies, ice cream or Delimanjoo cakes; provided that revenues received in connection with one or more of any such food or beverage items generally represent twenty percent (20%) or more of such business's monthly gross sales. The term "Competitive Business" shall not apply to any business operated by Franchisee under a Franchise Agreement with Company.

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

1. Trade Secrets and Confidential Information

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

a) For the purposes of this Agreement, a "Trade Secret" is information in any form (including, but not limited to, technical or non-technical data, formulas, recipes, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans, passwords, lists of actual or potential customers or suppliers related to or used in Lee's Sandwiches Businesses that is not commonly known by or available to the public and that information: (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

b) For the purposes of this Agreement "Confidential Information" means information used in or related to Lee's Sandwiches Businesses that is not commonly known by or available to the public, including, without limitation, Franchisor's Trade Secrets and information contained in the Confidential Operations Manual and training guides and materials. In addition, any other information identified as confidential when delivered by

Franchisee shall be deemed Confidential Information. Confidential Information shall not include, however, any information that: (i) is now or subsequently becomes generally available to the public through no fault of Individual; (ii) Individual can demonstrate was rightfully in its possession, without obligation of nondisclosure, prior to disclosure pursuant to this Agreement; (iii) is independently developed without the use of any Confidential Information; or (iv) is rightfully obtained from a third party who has the right, without obligation of nondisclosure, to transfer or disclose such information.

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

2. Confidentiality/Nondisclosure

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

b) Individual’s obligations under paragraph 2(a) of this Agreement shall continue in effect after termination of Individual’s relationship with Franchisee, regardless of the reason or reasons for termination, and whether such termination is voluntary or involuntary, and Franchisee is entitled to communicate Individual’s obligations under this Agreement to any future customer or employer to the extent deemed necessary by Franchisee for protection of its rights hereunder and regardless of whether Individual or any of its affiliates or assigns becomes an investor, partner, joint venturer, broker, distributor or the like in a Lee’s Sandwiches Business.

3. Non-Competition

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

b) During the term of Individual’s relationship with Franchisee, Individual shall not, directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity, carry on, be engaged in or take part in, render services to, or own or share in the earnings of any Competitive Business anywhere within the United States.

c) Subject to the exceptions below, and except as prohibited by law or as otherwise approved in writing by Franchisor, for a two (2) year period following the term of Individual’s relationship with Franchisee, regardless of the cause of termination, Individual shall not, directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity, carry on, be engaged in or take part in, render services to, or own or share in the earnings of any Competitive Business within:

i) a fifty (50) mile radius of the Franchisee's Approved Location, if such location is for a Lee's Sandwiches Baguette Factory Production Unit or a Lee's Sandwiches Production Unit; or a twelve (12) mile radius of the Franchisee's Approved Location, if such location is for a Lee's Sandwiches Non-Production Unit or within Franchisee's Protected Territory, whichever is greater, if the fulfillment of Individual's duties and responsibilities with respect to such Competitive Business (or the duties and responsibilities of another person/entity identified above) would inherently call upon Individual (or such other person/entity) to disclose and/or use Confidential Information or Trade Secrets.
or

ii) within: a fifty (50) mile radius of any other Lee's Sandwiches Baguette Factory Production Unit or a Lee's Sandwiches Production Unit; a twelve (12) mile radius of any other Lee's Sandwiches Non-Production Unit or any other Lee's Sandwiches Business in existence at the time of the termination of Individual's relationship with Franchisee or involvement in a Lee's Sandwiches International, Inc. Franchise, whichever occurs first, if the fulfillment of Individual's duties and responsibilities with respect to such Competitive Business (or the duties and responsibilities of another person/entity identified above) would inherently call upon Individual (or such other person/entity) to disclose and/or use Confidential Information or Trade Secrets.

For purposes of this Agreement, Franchisee's "Protected Territory" is defined as:

_____.

The following exceptions apply to this subsection (c): (1) this subsection (c) are subject to and limited in scope and/or time by, applicable state law; (2) the prohibitions in this subsection (c) do not apply to any interests in or activities performed in connection with a Franchised Business; and (3) the prohibitions in this subsection (c) do not apply to an Individual's ownership of less than five percent (5%) beneficial interest in the outstanding securities of any publicly held corporation.

4. Reasonableness of Restrictions

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

5. Relief for Breaches of Confidentiality and Non-Competition

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

6. Miscellaneous

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

b) Except to the extent this Agreement or any particular dispute is governed by the U.S. Trademark Act of 1946 or other federal law, this Agreement shall be governed by and construed in accordance with the laws of the State of California (without reference to its conflict of laws principles); provided that the California Relations Act, the California Franchise Investment law, and laws pertaining to business opportunities and seller assisted marketing plans shall not apply unless jurisdictional, definitional and application requirements of the law are met independently of this term. The Federal Arbitration Act shall govern all matters subject to arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency.

c) Any action brought by either party, shall only be brought in the appropriate state or federal court located in or serving Franchisee's principal place of business; provided that if Company is a party to any such action then it shall be brought in the appropriate state or federal court located in or serving Santa Clara County, California. The parties waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision. Claims for injunctive relief may be brought by Company where Franchisee is located. This exclusive choice of jurisdiction and venue provision shall not restrict the ability of the parties to confirm or enforce judgments or arbitration awards in any appropriate jurisdiction.

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

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

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

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

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

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

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

k) Except as otherwise expressly provided in this Agreement, no remedy conferred upon Franchisee or Company pursuant to this Agreement is intended to be exclusive of any other remedy, and each and

every such remedy shall be cumulative and shall be in addition to every other remedy given pursuant to this Agreement or now or hereafter existing at law or in equity or by statute or otherwise. No single or partial exercise by any party of any right, power or remedy pursuant to this Agreement shall preclude any other or further exercise thereof.

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

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

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

FRANCHISEE:

By:_____

Its:_____

INDIVIDUAL:

Signature:_____

Name Printed:_____

EXHIBIT 3 TO THE FRANCHISE AGREEMENT

UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATIONS

THIS UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATIONS is given this _____ day of _____, 20_____, in connection with that certain Franchise Agreement of even date herewith (which Franchise Agreement, as may have been modified, amended and/or supplemented in writing, is hereunder called the Franchise Agreement) by and between Lee's Sandwiches International, Inc., as "Franchisor" and _____ as "Franchisee".

As used herein, "Related Agreement" shall mean any agreement entered into by and between Franchisor and Franchisee or any Affiliate (as defined in the Franchise Agreement) in connection with or relating to the Franchise Agreement.

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

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

The obligations of Guarantor herein shall be co-extensive with those of Franchisee under the Franchise Agreement and each Related Agreement and shall remain in effect as long as Franchisee's obligations under the Franchise Agreement and each Related Agreement are in effect. This Guaranty Agreement is absolute and unconditional and shall continue without being affected by any impairment, release or limitation of the liability of Franchisee or its estate in bankruptcy resulting from the operation of any present or future provision of the Bankruptcy Code of the United States or from the decision of any court interpreting the same. Guarantor further agrees to be bound by each and every obligation of Franchisee under the Franchise Agreement and each Related Agreement, with the same force and effect as if Guarantor were designated in and had executed the Franchise Agreement and each Related Agreement as Franchisee thereunder.

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

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

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

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

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

Guarantor acknowledges having read and understood the Franchise Agreement and Guarantor agrees that this Guaranty and all other matters concerning Franchisor and Guarantor and/or their respective rights and obligations will be governed by, and construed and enforced in accordance with the dispute resolution provisions of Sections 23 and 24 of the Franchise Agreement, as though Guarantor was "Franchisee" for purposes of such Sections. Sections 23 and 24 are attached to this Guaranty and incorporated by reference.

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

The Guaranty Agreement contains the entire agreement between the parties with respect to the matters covered hereby, and Guarantor acknowledges that no agent, representative, salesman or officer of Franchisor or any Affiliate has authority to make or has made any statement, agreement or representation, either oral or written, in connection herewith, modifying, adding to or changing the terms and conditions herein set forth. No customs or dealings between the parties shall be permitted to contradict or modify the terms hereof. This Guaranty Agreement

shall not be construed more strictly against one party merely by reason of such party's preparation hereof. If any provision of this Guaranty Agreement shall be held to be invalid or unenforceable, to the maximum extent possible the remaining provisions hereof shall in no way be affected or impaired and such remaining provisions shall continue in full force and affect. Neither this Guaranty Agreement nor any of its provisions can be waived, modified or terminated orally, but only by a written instrument duly executed by or on behalf of the party against whom enforcement of any waiver, modification or termination is sought.

Guarantor fully and expressly intends that the foregoing requirements as to a writing be strictly adhered to and strictly interpreted and enforced by any court which may be asked to consider the matter. This Guaranty shall be effective for the full term of the Franchise Agreement and each Related Agreement, including any extensions or renewals thereof, for so long as any performance is or might be owed under this Agreement and for so long as Franchisor has any cause of action against Franchisee or any Guarantor.

GUARANTOR:

Notice Address: _____

**Sections 23 and 24 of the Franchise Agreement
(Attachment to Guarantee)**

23. GENERAL CONDITIONS AND PROVISIONS

23.1 No Waiver

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

23.2 Injunctive Relief

As any breach by Franchisee of any of the restrictions contained in Sections 6, 7 and 18 would result in irreparable injury to Franchisor, and as the damages arising out of any such breach would be difficult to ascertain, in addition to all other remedies provided by law or in equity, Franchisor shall be entitled to seek injunctive relief (whether a restraining order, a preliminary injunction or a permanent injunction) against any such breach, whether actual or contemplated, without the necessity of posting security or bond and Franchisee shall be responsible for Franchisor's reasonable attorneys' fees incurred in pursuing the same. Franchisor's right to seek injunctive relief will not affect the parties' waiver of jury trial and covenant to arbitrate all disputes in accordance with Section 24.7. Franchisor's rights herein shall include pursuing injunctive relief through arbitration or in a state or federal court.

23.3 Notices

All notices required or permitted under this Agreement shall be in writing and shall be deemed received: (a) at the time delivered by hand to the recipient party (or to an officer, director or partner of the recipient party); (b) on the next business day after transmission by facsimile or other reasonably reliable electronic communication system; (c) two (2) business days after being sent via guaranteed overnight delivery by a commercial courier service; or (d) five (5) business days after being sent by Registered Mail, return receipt requested. All notices shall be sent to Franchisee at the address listed on page one (1) of this Agreement or such other address as Franchisee may designate in writing to Franchisor. Either party may change its address by a written notice sent in accordance with this Section 23.3. All notices, payments and reports required by this Agreement shall be sent to Franchisor at the following address:

Lee's Sandwiches International, Inc.
Attn: President
660 E. Gish Road
San Jose, California 95112

23.4 Cost of Enforcement or Defense

If Franchisor or Franchisee is required to enforce this Agreement in a judicial or arbitration proceeding, the prevailing party shall be entitled to reimbursement of its costs, including reasonable

accounting and attorneys' fees, in connection with such proceeding. The party who recovers greater relief in an action shall be deemed the "prevailing party."

23.5 Unlimited Guaranty and Assumption of Obligations

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

23.6 Approvals

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

23.7 Entire Agreement

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

23.8 Severability and Modification

23.8.1 Except as noted in Section 23.8.2 below, each paragraph, part, term and provision of this Agreement shall be considered severable. If any paragraph, part, term or provision herein is ruled to be unenforceable, unreasonable or invalid, such ruling shall not impair the operation of or affect the remaining portions, paragraphs, parts, terms and provisions of this Agreement, and the latter shall continue to be given full force and effect and bind the parties; and such unenforceable, unreasonable or invalid paragraphs, parts, terms or provisions shall be deemed not part of this Agreement. If Franchisor determines that a finding of invalidity adversely affects the basic consideration of this Agreement, Franchisor has the right to, at its option, terminate this Agreement.

23.8.2 Notwithstanding the above, each of the covenants contained in Sections 7 and 18 shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of any such covenant is held to be unenforceable, unreasonable or invalid, then it shall be amended to provide for limitations on disclosure of Trade Secrets or other Confidential Information or on competition to the maximum extent provided or permitted by law.

23.9 Construction

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

23.10 Force Majeure

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

23.11 Timing

Time is of the essence. Except as set forth in Section 23.10, failure to perform any act within the time required or permitted by this Agreement shall be a material breach.

23.12 Withholding Payments

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

23.13 Further Assurances

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

23.14 Third-Party Beneficiaries

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

23.15 Multiple Originals

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

24. DISPUTE RESOLUTION

24.1 Choice of Law

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

published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency. Except to the extent of the applicability of the Federal Arbitration Act and related federal preemption requirements, this Agreement and all other matters concerning this Agreement and/or Franchisor (or any Franchisor Affiliate) and Franchisee or Franchisee owners, as applicable, their relationship and/or respective rights and obligations, will be governed by, and construed and enforced in accordance with, the laws of the state of California, without giving effect to any conflict of laws; PROVIDED, i) the provisions of the California Franchise Relations Act and the California Franchise Investment Law and any other California statute, regulation or law regarding franchise offers and sales, business opportunities, seller assisted marketing plans and/or franchise relationships shall not apply unless jurisdictional, definitional and other requirements thereof are met independently of this Section; and ii) the provisions of Sections 7.1 through 7.3, 18.2 and 18.3 shall be construed and enforced in accordance with the laws of the state where the claimed breach of such Section(s) occurs. The Federal Arbitration Act shall govern all matters subject to arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency.

24.2 Consent to Jurisdiction

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

24.3 Cumulative Rights and Remedies

No right or remedy conferred upon or reserved to Franchisor or Franchisee by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be in addition to every other right or remedy. Nothing contained herein shall bar Franchisor's right to obtain injunctive relief against threatened conduct that may cause it loss or damages, including obtaining restraining orders and preliminary and permanent injunctions.

24.4 Limitations of Claims

To the fullest extent permitted by law, any claim concerning the Franchised Business or this Agreement or any related agreement will be barred unless an action for a claim is commenced within one (1) year from the date on which Franchisee or Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim. Neither party shall be able to toll this one (1) year time period based upon information known only to that party.

24.5 Limitation of Damages

Franchisee and Franchisor each waive, to the fullest extent permitted by law, any right or claim for any punitive or exemplary damages against the other and agree that if there is a dispute with the other, each will be limited to the recovery of actual damages sustained by it including reasonable accounting and legal and expert fees as provided in Section 23.4 and applicable injunctive relief as provided in this Section 24. Franchisee waives and disclaims any right to consequential damages in any action or claim against Franchisor concerning this Agreement or any related agreement. In any claim or action brought by Franchisee against Franchisor concerning this Agreement, Franchisee's contract damages shall not exceed and shall be limited to refund of Franchisee's Franchise Fee and Royalty Fees.

24.6 Waiver of Jury Trial and Class Actions

FRANCHISEE AND FRANCHISOR EACH IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, WHETHER AT LAW OR EQUITY, BROUGHT BY EITHER OF THEM, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW.

ANY ARBITRATION OR OTHER LEGAL PROCEEDING BETWEEN FRANCHISOR OR ANY FRANCHISOR AFFILIATE AND FRANCHISEE OR ANY FRANCHISEE AFFILIATE OR OWNER SHALL BE BROUGHT AS AN INDIVIDUAL CLAIM AND SHALL NOT BE ARBITRATED OR LITIGATED ON A CLASS-WIDE, CLASS ACTION OR CONSOLIDATED BASIS, TO THE FULLEST EXTENT PERMITTED BY LAW.

24.7 Arbitration

This Agreement evidences a transaction involving commerce and, therefore, the Federal Arbitration Act, Title 9 of the United States Code is applicable to the subject matter contained herein. Except for controversies or claims relating to intellectual property rights, including, but not limited to, Franchisor's Marks, copyrights or the unauthorized use or disclosure of Franchisor's Confidential Information, covenants against competition and other claims for injunctive relief, all disputes arising out of or relating to this Agreement or to any other agreements between the parties, or with regard to interpretation, formation or breach of this or any other agreement between the parties, shall be settled by binding arbitration conducted in Santa Clara County, California, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. The proceedings will be held by a single arbitrator agreed upon by the parties or otherwise appointed by the Circuit Court for the State of California and located in Santa Clara County, California. The decision of the arbitrator will be final and binding upon the parties. Judgment upon the award rendered by the arbitrator may be entered in any court having personal and subject matter jurisdiction.

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

EXHIBIT 4 TO THE FRANCHISE AGREEMENT

**HOLDERS OF LEGAL OR BENEFICIAL INTEREST
IN FRANCHISEE; OFFICERS; DIRECTORS**

Holders of Legal or Beneficial Interest:

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

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

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

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

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

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

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

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

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

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

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

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

Officers and Directors:

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

Telephone No.: _____
E-mail address: _____

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

Telephone No.: _____
E-mail address: _____

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

Telephone No.: _____
E-mail address: _____

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

Telephone No.: _____
E-mail address: _____

EXHIBIT 5 TO THE FRANCHISE AGREEMENT

COLLATERAL ASSIGNMENT OF LEASE

THIS COLLATERAL ASSIGNMENT OF LEASE (this "Assignment") is entered into as of _____, 20____, between _____ ("Franchisee") and Lee's Sandwiches International, Inc., a California corporation ("Franchisor").

Subject to the provisions hereof, Franchisee, to secure its obligations to the Franchisor under the franchise agreement between Franchisor and Franchisee, dated _____, 20__ (the "Franchise Agreement"), hereby assigns, transfers and sets over unto Franchisor [and/or such person(s)/entity(ies) as Franchisor may from time-to-time designate] all of Franchisee's right, title and interest, whether as tenant or otherwise, in, to and under that certain lease (the "Lease"), a copy of which is attached to this Assignment, WHEREAS, Franchisee is a party to that certain Franchise Agreement dated _____, 20____ by and between Franchisee and Lee's Sandwiches International, Inc. ("Company"); and, between Franchisee and _____ ("Landlord"), respecting that property commonly known as _____ (the "Premises"). The Franchisor shall have no liabilities or obligations of any kind arising from, or in connection with, this Assignment, the Lease or otherwise (including, but not limited to, any obligation to pay rent and/or other amounts) until and unless the Franchisor, in its sole and absolute discretion, takes possession of the Premises pursuant to the terms hereof and expressly assumes in writing the rights and obligations of Franchisee under the Lease. The Franchisor is responsible only for those obligations accruing under the Lease after the date of such assumption.

Franchisee agrees to indemnify and hold harmless Franchisor from and against all claims and demands of any type, kind or nature made by Landlord or any third party that arise out of or are in any manner connected with Franchisee's use and occupancy of the Premises.

Franchisee represents and warrants to Franchisor that Franchisee has full power and authority to assign the Lease and its interest in the Lease.

Franchisor will not take possession of the Premises until and unless Franchisee defaults (and/or until there is a termination, cancellation, rescission or expiration of Franchisee's rights) under the Lease, any sublease, the Franchise Agreement or another agreement between Franchisee and Franchisor (or any Franchisor Associate). In such event, Franchisor (or its designee) shall have the right, and is hereby empowered, but has no obligation, to take possession of the Premises, and expel Franchisee. In such event, Franchisee shall have no further right, title or interest in or under the Lease or to the Premises, all such rights passing to Franchisor or its designee, in each case without the Landlord's further consent. Franchisee agrees to do all acts necessary or appropriate to accomplish such assignment on Franchisor's request. Franchisee will reimburse Franchisor for the costs and expenses incurred in connection with any such retaking, including, without limitation, the payment of any back rent and other payments due under the Lease (whether such payments are made by a separate agreement with the Landlord or otherwise), attorney's fees and expenses of litigation incurred in enforcing this Assignment, costs incurred in re-letting the Premises and costs incurred for putting the Premises in good working order and repair.

Franchisee agrees that it will not suffer or permit any surrender, termination, amendment or modification of the Lease without the prior written consent of Franchisor. Throughout the term of the Franchise Agreement, Franchisee agrees that it shall elect and exercise on a timely basis all options to extend the term, or renew or assume in bankruptcy, the Lease, unless Franchisor consents in writing to an alternative Accepted Location. Upon failure of Franchisee to so elect to extend or renew or assume the Lease, Franchisee hereby appoints Franchisor as its true and lawful attorney-in-fact to exercise such options in the name, place and stead of Franchisee for the sole purpose of

effecting any extension, renewal or assumption, in each case for the account of Franchisee and without any liability or obligation of Franchisor.

Failure of Franchisor to exercise any remedy hereunder shall not be construed or deemed to be a waiver of any of its rights hereunder. The rights and remedies of Franchisor under this Assignment are cumulative and are not in lieu of, but are in addition to, any other rights and remedies which Franchisor shall have under or by virtue of the Franchise Agreement or otherwise. The terms, covenants, and conditions contained herein shall bind Franchisee and its successors and assigns, and inure to the benefit of Franchisor and its successors and assigns. In the event of any dispute between the parties regarding this Assignment, or any matter related in any way to it, the dispute resolution provisions of the Franchise Agreement between Franchisor and Franchisee shall apply. The arbitrator in any such proceeding shall have the full power and authority to grant an appropriate award to give full effect to this Assignment, expelling Franchisee from the Premises and awarding possession to Franchisor, as well as granting such other relief as may be proper and fair at law and by equity. If there is more than one Franchisee, their obligations hereunder will be joint and several.

This Assignment, any memorandum hereof or any financial statement related hereto may be recorded by, and at the expense of, Franchisor. Franchisee hereby appoints Franchisor as its attorney in fact to execute any and all documents and to take any and all such actions, as are necessary or appropriate to record such instrument referenced above.

Nothing contained in this Assignment shall diminish any obligations or covenants of Franchisee owed under its Franchise Agreement with Franchisor, including, without limitation, any post-termination covenant not to compete. Terms not otherwise defined in this Exhibit have the same meanings as stated in the Franchise Agreement. Franchisee and Franchisor shall be bound to this Collateral Assignment of Lease regardless of whether or not the attached Landlord Approval is provided by Landlord.

FRANCHISOR:

Lee's Sandwiches International, Inc.
a California corporation

By: _____
Printed Name

Title: _____

Sign here if "Franchisee" is a natural person

FRANCHISEE (Individual[s])

Signature

Printed Name

Signature

Printed Name

Sign here if “Franchisee” is a type of business entity

FRANCHISEE (Corp., LLC or Partnership)

Legal Name of Franchisee Entity

a _____
Jurisdiction of Formation Corporation, LLC or Partnership

By: _____
Print Name

Signature

Title

LANDLORD APPROVAL:

The undersigned Landlord under the Lease hereby:

1. Agrees to notify Franchisor in writing of any proposed Lease amendment and of any default and any failure of Franchisee to cure any default under the Lease, as provided in the Lease Addendum of even date;
2. Agrees that Franchisor shall have the right, but not be obligated, to cure any default by Franchisee as provided in the Lease Addendum of even date;
3. Consents to the foregoing Collateral Assignment of Lease and agrees that if Franchisor takes possession of the Premises and confirms to Landlord the assumption of the Lease by Franchisor as tenant, Landlord shall recognize Franchisor, or its Associate or designee, as tenant under the Lease;
4. Agrees that Franchisor may further assign the Lease or sublet the Premises to a designee and/or a person or entity who is a franchise owner reasonably acceptable to Landlord. Franchisor will have no further liability under the Lease upon such an assignment. This Approval of Landlord shall apply to any subsequent franchise owner acceptable to Landlord, as provided herein;
5. Agrees to provide a copy of this Collateral Assignment of Lease to any actual and/or prospective purchaser of the Premises.

LANDLORD

By: _____

Its: _____

Address:

Telephone No. _____

Email address: _____

PREMISES LEASE ATTACHED
TO COLLATERAL ASSIGNMENT OF LEASE

EXHIBIT 6 TO THE FRANCHISE AGREEMENT

MULTI-STATE ADDENDA TO THE FRANCHISE AGREEMENT

**ADDENDUM TO THE FRANCHISE AGREEMENT
LEE'S SANDWICHES INTERNATIONAL, INC.**

FOR THE STATE OF CALIFORNIA

This is the California Addendum to the Lee's Sandwiches® Franchise Agreement (the "Agreement") with an effective date of _____ by and between Lee's Sandwiches International, Inc. ("Franchisor"), a California corporation, and _____ ("Franchisee"), a California franchisee. **The terms of this Addendum shall survive the termination or expiration of the Agreement.**

1. The following language is added as Section 4.2.3 of the Agreement.

4.2.3. *Market Withdrawal. Notwithstanding any other provision of Section 4 of the Agreement, if Franchisor publishes an announcement that it has determined that continued franchising in the state or in the standard metropolitan statistical area (as established by the United States Office of Management and Budget) within the state in which Franchisee's Store is located is not appropriate for reasons that relate to Franchisor's economic or other interests and that it is completely withdrawing from all franchise activity in such state/area (provided that Franchisor can continue to service existing Franchisees under outstanding agreements), then Franchisor will be considered to have made a general market area withdrawal, will have no liability to Franchisee therefore and will not be required to offer Franchisee any renewal Franchise or similar rights (a "Market Withdrawal"). In that event and if Franchisee is not in default of this Agreement, Franchisee will not be required to comply with its non-competition obligations under Section 18.2.2 of the Agreement. Franchisor shall not prevent Franchisee from retaining control of the principal place of the Franchised Business in the event of a Market Withdrawal. Franchisee agrees that if any statute or court decision requires "good cause" (or any similar standard) for non-renewal, Franchisor's compliance with the provisions of this clause will be deemed to be good cause. Franchisor shall provide Franchisee at least one hundred eighty (180) days' notice of its intention not to renew pursuant to this Section.*

2. Section 18.2.2. of the Agreement is deleted and the following language is substituted:

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

18.2.2.1 *if Franchisee has elected to operate a Lee's Sandwiches Baguette Factory Production Unit or a Lee's Sandwiches Production Unit, own an interest in, finance, manage, operate or provide services to any Competitive Business located or operating (a) within a fifty (50) mile radius of the Approved Location or within the Protected Territory (whichever is greater), or (b) within a fifty (50) mile radius of the location of any other Lee's Sandwiches Business in existence at the time of termination or expiration, if the fulfillment of Franchisee's duties and responsibilities with respect to such Competitive Business (or the duties and responsibilities of another person/entity identified in Section 18.2.2.) would inherently call upon Franchisee (or such other person/entity) to disclose and/or use Franchisor's Confidential Information or Trade Secrets; or*

18.2.2.2 *if Franchisee has elected to operate a Lee's Sandwiches Non-Production Unit, own an interest in, finance, manage, operate or provide*

services to any Competitive Business located or operating (a) within a twelve (12) mile radius of the Approved Location or within the Protected Territory (whichever is greater), or (b) within a twelve (12) mile radius of the location of any other Lee's Sandwiches Business in existence at the time of termination or expiration, if the fulfillment of Franchisee's duties and responsibilities with respect to such Competitive Business (or the duties and responsibilities of another person/entity identified in Section 18.2.2.) would inherently call upon Franchisee (or such other person/entity) to disclose and/or use Franchisor's Confidential Information or Trade Secrets; or

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

3. To the extent that Sections 16 ("Default and Termination"), 18 ("Rights and Duties on Expiration or Termination") and 19 ("Transferability of Interest") and any other terms of the Agreement are inconsistent with the California Franchise Relations Act (CA. Bus. & Prof. Code §20020, et. seq.), the terms of the statute will control and the applicable Section shall be modified only to the extent required to comply with such law. The parties agree that in no event shall a reasonable opportunity to cure to the extent required under such statute be greater than seventy five (75) days.

4. The first paragraph of Section 16.2.1. is hereby deleted and the following language is substituted:

16.2.1 Termination by Franchisor with No Opportunity to Cure. This Agreement shall, at Franchisor's option, terminate automatically upon Franchisor's delivery of notice of termination to Franchisee, without opportunity to cure, if Franchisee (or Franchisee owner(s), as applicable) commits any of the breaches of this Agreement identified below in this Section 16.2.1., each of which is deemed by the parties to be a failure by Franchisee to substantially comply with the Franchise Agreement requirements. Franchisee (or a Franchisee owner):

- i. abandons or fails to operate the Franchised Business for more than five (5) consecutive calendar days during which Franchisee is required to operate, or for any shorter period after which it is not unreasonable for Franchisor to conclude that Franchisee does not intend to continue operating;*
- ii. experiences a seizure or foreclosure of the Franchised Business or Franchisee's Franchised Business premises by a government official or by a creditor or lessor and a final judgment against Franchisee is unsatisfied for 30 days, or a levy of execution is made upon any property used in the Franchised Business and not discharged within five (5) days;*
- iii. makes any material misrepresentation or omission in the application for the Franchise;*
- iv. is (or the Franchise Business is) the subject of an order for relief in bankruptcy, judicially determined to be insolvent or admits Franchisee is unable to pay debts as they become due; or makes an assignment for the benefit of creditors;*
- v. is convicted of, or plead no contest to, a felony, or any other criminal misconduct relevant to the operation of Franchisee's Franchised Business;*
- vi. engages in any conduct which reflects materially and unfavorably upon Franchisee's Franchised Business, the Lee's Sandwiches System or the goodwill associated with the Marks;*
- vii. fails to comply with any law or regulation applicable to the operation of the Franchised Business for a period of 10 days after notification of non-compliance, including without limitation, health, safety, building, and labor laws and regulations;*
- viii. after curing a failure to comply with this Agreement, as provided in Section 16. 2.2 below, engages in the same non-compliance, whether or not corrected after notice;*
- ix. operates the Franchised Business such that Franchisor reasonably determines that the continued operation of the Franchised Business can result in imminent danger to public health and/or safety; or*

x. *repeatedly fails to comply with one or more requirements of this Agreement or any Confidential Operations Manual, whether or not corrected after notice.*

5. Section 16.2.2. of the Agreement is deleted and the following language is substituted:

16.2.2. Termination by Franchisor with Opportunity to Cure. This Agreement shall terminate, at Franchisor's sole option, without further action by Franchisor or notice to Franchisee, if Franchisee (or any Franchisee owner(s), as applicable):

i) *fails to pay any amount due Franchisor or any Franchisor Affiliate for Royalty Fees, Marketing Fund fees, or purchases from Franchisor or any Franchisor Affiliate, or any other amount owed, and does not correct any such failure within five (5) days after written notice is delivered to Franchisee. The parties agree that if Franchisee or any Franchisee owner commits a breach under this Section 16 2.2. i), each such breach shall be deemed to be a failure by Franchisee to substantially comply with the Franchise Agreement requirements;*
or

ii) *fails or refuses to comply with any provision of this Agreement not otherwise addressed under Sections 16 2.1. and 16 2.2 i), above, or with any provision of any other agreement with Franchisor or any Franchisor Affiliate, or with any mandatory requirement prescribed in the Confidential Operations Manual, and does not correct the failure within sixty (60) days of written notice thereof or within any shorter period for cure as may be permitted by statute. The parties agree that such a breach by Franchisee or any Franchisee owner of a material provision of this Agreement, or of any other agreement with Franchisor or any Franchisor Affiliate, or of any mandatory requirement prescribed in the Confidential Operations Manual shall be deemed to be a failure to substantially comply with the Franchise Agreement requirements.*

6. The following language is added as Section 16 7.

16.7. Market Withdrawal. *If Franchisor publishes an announcement that it has determined that continued franchising in the state or in the standard metropolitan statistical area (as established by the United States Office of Management and Budget) within the state in which Franchisee's Store is located is not appropriate for reasons that relate to Franchisor's economic or other interests and that it is completely withdrawing from all franchise activity in such state/area (provided that Franchisor can continue to service existing Franchisees under outstanding agreements), then Franchisor will be considered to have made a general market area withdrawal (a "Market Withdrawal"). A Market Withdrawal shall be considered a lawful basis for termination of the Franchise Agreement, and Franchisor shall have no liability to Franchisee therefore. In the event of a Market Withdrawal Franchisee will not be required to comply with its non-competition obligations under Section 18.2 of this Agreement. Franchisor shall not prevent Franchisee from retaining control of the principal place of the Franchised Business in the event of a Market Withdrawal.*

7. New Section 16.6 is inserted into the Franchise Agreement and states as follows:

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

8. Section 18.4. of the Agreement is deleted and the following language is substituted:

Franchisor shall have the right upon termination or non-renewal of the Franchise to purchase from Franchisee at the value of price paid by Franchisee, minus depreciation, Franchisee's inventory, supplies, equipment, fixtures and furnishings (the "Items") purchased or paid for under the terms of this Agreement or an agreement ancillary hereto by Franchisee to Franchisor or to its approved suppliers that are possessed or used by Franchisee in the franchised business at the time of termination or non-renewal. For the purposes of this provision and compliance under and construction of the California Franchise Relations Act (CFRA), the parties agree that such depreciation shall be calculated based on whichever of the two (2) methods prescribed results in a lower valuation of the Items: i) the Modified Accelerated Cost Recovery System (MACRS) method applied in accordance with the applicable standard U.S. Internal Revenue Service (IRS) schedules effective for the calendar year immediately preceding the calendar year in which the Franchise Agreement terminated or expired and was not renewed; or ii) last filed depreciation schedules for such Items included by Franchisee in an IRS income tax return previously filed for the Franchised Business. Franchisee shall provide Franchisor a true and complete copy of such income tax returns and related schedules within five (5) business days of Franchisor's request. Franchisee shall further provide Franchisor clear title to and possession of any such Items. Franchisor can offset against the amounts owed to Franchisee any amounts owed by Franchisee to Franchisor.

If a court or arbitrator finds that Franchisor has terminated or failed to renew this Agreement in violation of the CFRA, the parties agree that the fair market value of the Franchised Business and franchise assets (the "FMV") for purposes of compliance with the CFRA shall be established in accordance with the following procedure: Franchisor and Franchisee shall mutually select an independent Certified Business Appraiser within thirty (30) days of such court/arbitrator finding. If unable to identify a mutually acceptable Certified Business Appraiser, Franchisor and Franchisee each shall select a person within forty five (45) days of such court/arbitrator finding who is an independent Certified Business Appraiser (the "Designees") and such Designees promptly shall mutually agree to a third independent Certified Business Appraiser whose determination of the FMV shall be final and binding on the parties.

9. The following language is added to Section 20.1 of the Agreement:

Franchisee shall deliver to Franchisor by business courier or receipted U.S. mail, written notice of Franchisee's intent to transfer, which notice shall include the proposed transferee(s)' name and address and shall be accompanied by a copy of all agreements and related documents pertaining to the proposed Transfer. Franchisee also shall deliver to Franchisor the transferee's completed application, which shall include all forms, financial disclosures, related documentation and such other information as then may be required to complete Franchisor's evaluation of prospective new franchisees, and shall respond to any request from Franchisor for additional information within fifteen (15) days of receipt of such request.

10. Section 20.2. of the Agreement is deleted and the following language is substituted:

20.2. Franchisor's Right to Purchase. Franchisor shall have a right of first refusal to accept the terms of any such proposed transfer. To enable Franchisor to exercise its right of first refusal, Franchisee shall provide any additional information Franchisor requests about the proposed transaction, including the purchase and sale agreement and related documents and terms, and shall comply with all applicable document and notice requirements relating to Franchisee's proposed transfer under applicable state law. Within sixty (60) days after Franchisor receives the notice described in 20 1., above, and all requested information, Franchisor shall notify Franchisee in writing by business courier or U.S. receipted mail of Franchisor's consent or withholding of consent to the proposed Transfer, or in accordance with this Section 20, acceptance for itself or its nominee of the transfer on the terms specified in

Franchisee's notice. If Franchisor elects not to exercise its right of first refusal and consents to the proposed transfer, then Franchisee shall be authorized to complete the proposed transaction with the proposed transferee on the terms contained in the original notice to Franchisor and subject to satisfaction of the conditions contained in Section 19 of the Agreement. Any material change to any such transfer terms shall constitute a new proposal, which shall again require compliance with the procedures provided in this Section 20 or as required under applicable state law. If Franchisor exercises its right of first refusal, then in addition i) Franchisor shall have the right to substitute cash for any form of payment proposed in the offer; ii) Franchisor's credit-worthiness shall not be deemed to be less than that of any proposed purchaser; iii) Franchisor shall have at least sixty (60) days after notifying Franchisee of its election to exercise its right of first refusal to prepare for closing; and iv) Franchisor shall be entitled to receive customary written representations and warranties from Franchisee. Franchisee shall take all action necessary to cause any pertinent agreements designated by Franchisor to be assigned to Franchisor."

11. The following language is added to Section 24.7 of the Agreement:

The arbitrator shall decide any questions relating in any way to the parties' agreement to arbitrate, including arbitrability, applicability, subject matter, timeliness, scope, remedies, and any alleged fraud in the inducement, or purportedly void or voidable provisions of the Agreement. The arbitrator can issue summary orders disposing of all or part of a claim and provide for temporary restraining orders, preliminary injunctions, injunctions, attachments, claim and delivery proceedings, temporary protective orders, receiverships and other equitable and/or interim/final relief. Each party consents to the enforcement of such orders, injunctions, and other relief by any court having jurisdiction. The subpoena powers of the arbitrator with respect to witnesses to appear at the arbitration proceeding shall not be subject to any geographical limitation. No award in arbitration will have any effect of preclusion or collateral estoppel in any other adjudication or arbitration. Arbitrators in any proceeding under this Section 24.7 will apply all applicable law, and a failure to apply the applicable law in accordance with Section 24.1 will be deemed an act in excess of authority and reviewable by the courts, and the parties expressly agree that any arbitration award can be reviewed and overturned by a court for legal error. If required by applicable law for any arbitration provision to be enforceable (for example, to preserve constitutionally or statutorily provided rights), the arbitrator can, as soon as possible, appropriately allocate between Franchisee and Franchisor the fees of the arbitrator(s) and/or his/her related organization, or require an advance of a portion of such fees subject to possible reimbursement, or otherwise address such issues so as to allow the arbitration to proceed and can adjust such allocations appropriately during the arbitration process for such purpose. Either party can in its discretion advance the other party's portion of the initial case filing fees paid to the American Arbitration Association, or successor organization, for an arbitration matter pursuant to this Agreement. In the event of a conflict between Commercial Arbitration Rules and this Agreement, this Agreement shall control.

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

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

FRANCHISOR:

Lee's Sandwiches International, Inc.
a California corporation

By: _____
Printed Name

Title: _____

Sign here if "Franchisee" is a natural person

FRANCHISEE (Individual[s])

Signature

Printed Name

Signature

Printed Name

Sign here if "Franchisee" is a type of business entity

FRANCHISEE (Corp., LLC or Partnership)

Legal Name of Franchisee Entity

a _____
Jurisdiction of Formation Corporation, LLC or Partnership

By: _____
Print Name

Signature

FOR THE STATE OF HAWAII

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of the Hawaii Franchise Investment Law, Hawaii Revised Statutes, Title 26, Chapter 482E *et seq.*, the Franchise Agreement for Lee's Sandwiches International, Inc. is amended as follows:

- The Hawaii Franchise Investment Law provides rights to Franchisee concerning non-renewal, termination and transfer of the Franchise Agreement. If the Agreement, and more specifically Sections 4.2, 16.2 and 19.2 contain a provision that is inconsistent with the Hawaii Franchise Investment Law, the Hawaii Franchise Investment Law will control.
- Sections 4.2.2.9, 19.2.3 and 19.2.6 require Franchisee to sign a general release as a condition of renewal or transfer of the Franchise and Sections 5.2, 5.5 and 8.3 require Franchisee to sign a general release as a condition to receiving a refund of a portion of the Franchise Fee following a termination of the Franchise; such release shall exclude claims arising under the Hawaii Franchise Investment Law.
- Section 16.2.1.12, which terminates the Franchise Agreement upon the bankruptcy of Franchisee, may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, *et seq.*).

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Hawaii Franchise Investment Law are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

Lee's Sandwiches International, Inc.:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF ILLINOIS

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of the Illinois Franchise Disclosure Act, 815 ILCS 705, the Franchise Agreement for Lee's Sandwiches International, Inc. is amended as follows:

Sections 4.2.2.9, 5.2, 5.5, 8.3, 19.2.3 and 19.2.6 are amended to add:

No general release shall be required as a condition of renewal or transfer or as a condition to receiving a refund of a portion of the Franchise Fee following a termination of the Franchise that is intended to require Franchisee to waive compliance with the Illinois Franchise Disclosure Act, 815 ILCS 705.

- Sections 16, 18 and 24 are amended to add:

The conditions under which the Franchise Agreement can be terminated and Franchisee's rights upon termination or non-renewal, as well as the application by which Franchisee must bring any claims, may be governed by the Illinois Franchise Disclosure Act, 815 ILCS 705/19 and 705/20.

- Sections 24.1 and 24.2 are amended to add:

The Franchise Agreement shall be governed by Illinois law. Jurisdiction and venue for court litigations shall be in Illinois. Any provision in the Franchise Agreement that designates jurisdiction or venue in a forum outside the State is void, provided that a Franchise Agreement may provide for arbitration in a forum outside of Illinois.

- Section 24.4 is amended to add:

No action for liability under the Illinois Franchise Disclosure Act shall be maintained unless brought before the expiration of three (3) years after the act or transaction constituting the violation upon which it is based, the expiration of one (1) year after Franchisee becomes aware of facts or circumstances reasonably indicating that the Franchisee may have a claim for relief in respect to conduct governed by the Act, or ninety (90) days after delivery to Franchisee of a written notice disclosing the violation, whichever shall first expire.

- Section 24.6 with respect to waiver of jury trials is deleted.

2. Any condition, stipulation, or provision purporting to bind any person acquiring any Franchise to waive compliance with any provision of this Act or any other law of this State is void. This Section shall not prevent any person from entering into a settlement agreement or executing a general release regarding a potential or actual lawsuit filed under any of the provisions of this Act, nor shall it prevent the arbitration of any claim pursuant to the provisions of Title 9 of the United States Code.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Illinois Franchise Disclosure Act are met independently of this Addendum. To the extent this

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

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

Lee's Sandwiches International, Inc.:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF INDIANA

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of the Indiana Deceptive Franchise Practices Law, IC 23-2.2.7 and the Indiana Franchise Disclosure Law, IC 23-2-2-2.5, the Franchise Agreement for Lee's Sandwiches International, Inc. is amended as follows:

- Sections 4.2.2.9, 5.2, 5.5, 8.3, 19.2 and 19.2.6 do not provide for a prospective general release of claims against Franchisor that may be subject to the Indiana Deceptive Franchise Practices Law or the Indiana Franchise Disclosure Law.
- Section 16 is amended to prohibit unlawful unilateral termination of a Franchise unless there is a material violation of the Franchise Agreement and termination is not in bad faith.
- Section 18.2 is amended subject to Indiana Code 23-2-2.7-1(9) to provide that post-term non-competitor covenants shall have a geographical limitation of the territory granted to Franchisee.
- Section 22.3 is amended to provide that Franchisee will not be required to indemnify Franchisor for any liability imposed upon Franchisor as a result of Franchisee's reliance upon or use of procedures or products which were required by Franchisor, if such procedures or products were utilized by Franchisee in the manner required by Franchisor.
- Section 24.1 is amended to provide that, in the event of a conflict of law, the Indiana Franchise Disclosure Law, IC 23-2-2.5, and the Indiana Deceptive Franchise Practices Law will prevail.
- Section 24.2 is amended to provide that Franchisee may commence litigation in Indiana for any cause of action under Indiana law.
- Section 24.7 is amended to provide that arbitration between Franchisor and Franchisee, shall be conducted at a mutually agreed upon location.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Indiana Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

Lee's Sandwiches International, Inc.:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF MARYLAND

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of the Maryland Franchise Registration and Disclosure Law, Md. Code Ann., Bus. Reg. §§14-201-14-233, the Franchise Agreement for Lee's Sandwiches International, Inc. is amended as follows:

- Sections 4.2.2.9, 19.2.3 and 19.2.6 require Franchisee to sign a general release as a condition of renewal or transfer of the Franchise and Sections 5.2, 5.5 and 8.3 require Franchisee to sign a general release as a condition to receiving a refund of a portion of the Franchise Fee following a termination of the Franchise; such release shall exclude claims arising under the Maryland Franchise Registration and Disclosure Law.
- Section 16.2.1.12, which terminates the Franchise Agreement upon the bankruptcy of Franchisee, may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, *et seq.*).
- Sections 24.2 and 24.7 require litigation or arbitration to be conducted in the State of California; the requirement shall not limit any rights Franchisee may have under the Maryland Franchise Registration and Disclosure Law to bring suit in the State of Maryland.
- Section 24.4 is amended to the extent that any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three (3) years after the grant of the Franchise.

2. Any portion of the Franchise Agreement which requires prospective franchisees to disclaim the occurrence and/or acknowledge the non-occurrence of acts would constitute a violation of the Maryland Franchise Registration and Disclosure Law. Any such representations are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

Lee's Sandwiches International, Inc.:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF MINNESOTA

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the Minnesota Franchise Law, Minn. Stat., Chapter 80C, Sections 80C.01 through 80C.22, and the Rules and Regulations promulgated pursuant thereto by the Minnesota Commission of Securities, Minnesota Rule 2860.4400, et. seq., the parties to the attached Franchise Agreement agree as follows:

- Sections 4 and 16 are amended to add that with respect to Franchises governed by Minnesota Law, Franchisor will comply with the Minnesota Franchise Law that requires, except in certain specified cases, that Franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice of non-renewal of the Agreement.
- Sections 4.2.2.9, 5.2, 5.5, 8.3, 19.2.3 and 19.2.6 do not provide for a prospective general release of any claims against Franchisor that may be subject to the Minnesota Franchise Law. Minn. Rule 2860.4400D prohibits a franchisor from requiring a franchisee to assent to a general release.
- Section 6 is amended to add that as required by Minnesota Franchise Act, Lee's Sandwiches International, Inc. will reimburse you for any costs incurred by you in the defense of your right to use the Marks, so long as you were using the Marks in the manner authorized by Lee's Sandwiches International, Inc., and so long as Lee's Sandwiches International, Inc. is timely notified of the claim and is given the right to manage the defense of the claim including the right to compromise, settle or otherwise resolve the claim, and to determine whether to appeal a final determination of the claim.
- Section 24.4 is amended to state that any claim concerning the Franchised Business or this Agreement or any related agreement will be barred unless an arbitration or an action for a claim that cannot be the subject of arbitration is commenced within three (3) years from the date on which Franchisee or Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to or the claim.
- Section 24.5 is deleted in its entirety.
- Section 24.6 is deleted with respect to the jury trial waiver.
- Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibit Franchisor from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or Franchise Agreement can abrogate or reduce any of Franchisee's rights as provided for in Minnesota Statutes, Chapter 80C, or Franchisee's rights to any procedure, forum or remedies provided for by the laws of the jurisdiction. However, Franchisor may seek such relief through the court system with or without a bond as determined by a court. Minn. Rule Part 2860.4400J prohibits Franchisee from waiving its rights to a jury trial or waiving its rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction, or consenting to liquidated damages, termination penalties or judgment notes. To the extent that the Franchise Agreement requires Franchisee to waive these rights, the Franchise Agreement will be considered amended to the extent necessary to comply with the Minnesota Rule.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Minnesota Franchise Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

Lee's Sandwiches International, Inc.:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF NEW YORK

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of the General Business Laws of the State of New York, Article 33, §§ 680 through 695, the Franchise Agreement for Lee's Sandwiches International, Inc. is amended as follows:

- Sections 4.2.2.9, 5.2, 5.5, 8.3, 19.2.3 and 19.2.6 require Franchisee to sign a general release as a condition of renewal, transfer, or receiving a refund of a portion of the Franchise Fee following termination of the Franchise; such release shall exclude claims arising under the General Business Laws.
- Section 16.1 is amended to state that Franchisee may terminate the agreement on any grounds available by law.
- Under Section 19.1, Franchisor shall not transfer and assign its rights and obligations under the Franchise Agreement unless the transferee will be able to perform Franchisor's obligations under the Franchise Agreement, in Franchisor's good faith judgment, so long as it remains subject to the General Business Laws of the State of New York.
- Section 22.3 is amended to provide that Franchisee will not be required to indemnify Franchisor for any liability imposed upon Franchisor as a result of Franchisee's reliance upon or use of procedures or products that were required by Franchisor, if such procedures or products were utilized by Franchisee in the manner required by Franchisor.
- Section 24.1 requires that the Franchise be governed by the laws of the state Franchisor's principal business is then located, such a requirement will not be considered a waiver of any right conferred upon Franchisee by Article 33 of the General Business Laws.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the New York Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

Lee's Sandwiches International, Inc.:

Franchisee:_____

By: _____

By: _____

Title:_____

Title: _____

FOR THE STATE OF NORTH DAKOTA

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. The North Dakota Securities Commission requires that certain provisions contained in the Agreement be amended to be consistent with North Dakota Law, including the North Dakota Franchise Investment Law, North Dakota Century Code Addendum, Chapter 51-19, Sections 51-19-01 *et seq.* Such provisions in the Agreement are hereby amended as follows:

- Under Sections 4.2.2.9, 5.2, 5.5, 8.3, 19.2.3 and 19.2.6, the execution of a general release upon renewal, transfer, or as a condition of receipt of a refund of a portion of the Franchise Fee following termination, shall be inapplicable to Franchises operating under the North Dakota Franchise Investment Law to the extent that such a release excludes claims arising under the North Dakota Franchise Investment Law.
- Section 7 is amended to add that the prevailing party in any enforcement action is entitled to recover all costs and expenses including attorneys' fees.
- Sections 18.1.5 and 18.1.6 are amended to state:

If Franchisor or Franchisee is required to enforce this Agreement via judicial or arbitration proceedings, the prevailing party shall be entitled to reimbursement of its costs, including reasonable accounting and legal fees in connection with such proceeding.
- Section 18.2 is amended to add that covenants not to compete upon termination or expiration of the Franchise Agreement are generally unenforceable in the State of North Dakota except in limited instances as provided by law.
- Section 24.1 is amended to state that in the event of a conflict of laws, North Dakota Law shall prevail.
- Section 24.2 is amended to add that any action may be brought in the appropriate state or federal court in North Dakota with respect to claims under North Dakota Law.
- Section 24.4 is amended to state that the statute of limitations under North Dakota Law shall apply.
- Sections 24.5 is deleted in its entirety and 24.6 as it relates to jury trial waiver is deleted.
- Section 24.7 is amended to state that arbitration involving a Franchise purchased in North Dakota must be held either in a location mutually agreed upon prior to the arbitration, or if the parties cannot agree on a location, the arbitrator will determine the location.
-

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the North Dakota Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

Lee's Sandwiches International, Inc.:

Franchisee:_____

By: _____

By: _____

Title:_____

Title: _____

FOR THE STATE OF RHODE ISLAND

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of The Rhode Island Franchise Investment Act §19-28.1-14, the Franchise Agreement for Lee's Sandwiches International, Inc. is amended as follows:

- Sections 4.2.2.9, 5.2, 5.5, 8.3, 19.2.3 and 19.2.6 require Franchisee to sign a general release as a condition of renewal, transfer, or receipt of a refund of a portion of the Franchise Fee following termination of the Franchise; such release shall exclude claims arising under The Rhode Island Franchise Investment Act.
- Sections 24.1, 24.2 and 24.7 are amended to state that restricting jurisdiction or venue to a forum outside the State of Rhode Island or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under The Rhode Island Franchise Investment Act.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Rhode Island Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

Lee's Sandwiches International, Inc.:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE COMMONWEALTH OF VIRGINIA

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____
_____ to amend and revise said Franchise Agreement as follows:

- Section 16.2.1.12, which terminates the Franchise Agreement upon the bankruptcy of Franchisee, may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, *et seq.*).
- Section 24.4 of the Franchise Agreement, titled "Limitations of Claims" is amended to state:

Any claim concerning the Agreement or any agreement related Franchised Business will be barred unless an action for the claim is commenced within one (1) year from the date on which the Franchisee knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim. Any claim concerning the agreement or any related agreement will be barred unless the action for a claim is commenced within one (1) year from the date on which the Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim. Neither party shall be able to toll this one (1) year time period based upon information known only to that party.

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

Lee's Sandwiches International, Inc.:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF WASHINGTON

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

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.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration site shall 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. 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.

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

A release or waiver of rights executed by a Franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder, 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 or rights or remedies under the Act, such as a right to a jury trial, may not be enforceable.

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

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.

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.

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

Lee's Sandwiches International, Inc.:

Franchisee:_____

By: _____

By: _____

Title:_____

Title: _____

*Lee's Sandwiches International, Inc.
Franchise Agreement – Exhibit 6
4.2023*

FOR THE STATE OF WISCONSIN

This Addendum to the Franchise Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____
_____ to amend and revise said Franchise Agreement as follows:

1. The Wisconsin Fair Dealership Law Title XIV-A Ch. 135, Sec. 135.01-135.07 shall supersede any conflicting terms of the Franchise Agreement.

2. This provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Wisconsin Fair Dealership Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

Lee's Sandwiches International, Inc.:

Franchisee: _____

By: _____

By: _____

Title: _____

Title: _____

LEE'S SANDWICHES INTERNATIONAL, INC.

**TABLE OF CONTENTS
OF CONFIDENTIAL OPERATIONS MANUAL**

EXHIBIT D TO THE DISCLOSURE DOCUMENT

PREFACE

Correspondence and Communication	1
Statement of Non-Discrimination.....	2
How this Manual is Organized	3
Statement of Confidentiality	4
Manual Revisions.....	6
Notice of Policy/Procedure Change.....	7
Submitting Suggestions to the Franchisor	8
Suggested Policy/Procedure Change	9
Limitations of the Manual.....	10

A. INTRODUCTION

History and Philosophy of Lee's Sandwiches International, Inc.	A-1
Responsibilities of a Lee's Sandwiches Franchisee	A-3
Visits from the corporate office	A-4
Your District Manager	A-5
Field Visit Confirmation	A-6

B. ESTABLISHING A LEE'S SANDWICHES RESTAURANT

Introduction	B-1
Your Status as an Independent Contractor	B-2
Required/Recommended Bank Accounts.....	B-4
Selecting and Developing Your Site.....	B-5
Required Lease Inclusions	B-7
Required Insurance Coverage	B-8
Decor Specifications	B-10
Signage and Logo Specifications.....	B-11
Sample Logo	B-12
Special Licenses and Permits	B-13
Health Department Regulations.....	B-14
Purchasing Foodservice Equipment and Supplies.....	B-16
Food Purchasing Specifications.....	B-17
Recommended Initial Inventory	B-18
Paying Taxes	B-19
Paying Additional Fees	B-22

C. MANAGING A LEE'S SANDWICHES RESTAURANT

Introduction	C-1
--------------------	-----

Scheduling.....	C-2
Conducting Inventory	C-3
Ordering Inventory.....	C-4
Receiving Inventory.....	C-6
Inventory Storage and Rotation	C-7
Using Approved Sources	C-10
Notice of Proposed Change of Supplier/Supply	C-11
New Product and/or Menu Item Proposal.....	C-12
Notice of Proposed New Product/Menu	C-13
Notice of Proposed Change of Menu Price.....	C-14
Notice of Proposed Change of Business Hours	C-15
Generating Profit.....	C-16
Increasing Sales	C-22
Inventory Controls.....	C-24
Labor Costs and Scheduling.....	C-26
Cash Controls	C-27
Portioning.....	C-29
Smallwares and Expendable Controls.....	C-31
Maintenance Practices and Repairs	C-32
Franchise Reporting Requirements and Procedures	C-34
Statement of Gross Receipts.....	C-36
Advertising Activity Report	C-37
Preparing Financial Statements	C-39
Sample Income Statement Format	C-40
Sample Balance Sheet Format.....	C-41

D. OPERATIONAL PROCEDURES

Introduction	D-1
Suggested Restaurant Hours.....	D-2
Daily Opening and Closing Duties	D-3
Customer Service	D-8
Handling Customer Complaints.....	D-9
Features of the Cash Register/Point-of-Sale System	D-10
Accepting Cash.....	D-11
Preparing the Bank Deposit.....	D-13
Safety in Your Restaurant	D-14
Restaurant Security.....	D-18
Customer Injury/Illness	D-20
Employee Injury/Illness	D-21

E. MARKETING AND ADVERTISING

Introduction	E-1
Advertising Program	E-2
The Value of Advertising.....	E-5
Requirements for Using Lee’s Sandwiches Marks.....	E-6
Sample Lee’s Sandwiches Marks.....	E-8
The Grand Opening.....	E-9
Advertising Media.....	E-10
The Yellow Pages.....	E-11
Newspapers.....	E-12
Direct Mail.....	E-14
Radio	E-16
Television	E-17
Specialty Advertising	E-18
Publicity.....	E-19
Sample Press Release Format	E-20
Obtaining Approval for Advertising Concepts and Materials.....	E-21
Request for Advertising Approval	E-22
Ordering Advertising Materials	E-23
Advertising Materials Order Form.....	E-25

F. QSI – QUALITY, SERVICE AND IMAGE

Introduction	F-1
Quality - Bakery	F-2
Quality - Sandwich.....	F-3
Quality – Beverage.....	F-4
Quality – Deli Manjoo	F-5
Quality – Coconut Waffle.....	F-8
Quality – Storage.....	F-10
Service – Cashier.....	F-11
Service – Pick-up	F-17
Service – Drive-Thru	F-18
Service – Lee’s Sandwiches Gift Cards.....	F-22
Image	F-25

G. MANAGEMENT DUTIES

Introduction	G-1
Manager’s Daily Checklist	G-2
Production Reports.....	G-3
Food Waste/Loss Log	G-4

Office Procedures.....	G-5
Customer Service	G-7
Inventory	G-9
Equipment and Building Services	G-11
Routine Cleaning and Maintenance Schedule	G-12
Communication.....	G-13
Store Audits.....	G-46
Health Inspection	G-16
Security.....	G-17
Emergencies	G-18

H. FRANCHISEE TRAINING PROGRAM

Introduction	H-1
Franchisee Training Agenda	H-2
Weekly Progress Report of Trainee.....	H-7
Training Program Evaluation.....	H-8

I. LEE’S SANDWICHES COOKBOOK

Lee’s Sandwiches Food Menu Reference

Baguettes

Croissants

Coconut Waffles

French Horns

Pate Chauds

Beignets

Hollow Doughnuts

Chinese Sausages

Baked Tapioca Cakes

Baythoy Cakes

Chinese Cakes

Mung Bean Cakes

Steamed Tapioca Cakes

Steamed Sweet Corns

Vermicelli

Pork Roll Banana Leaf

Steamed Buns

Appetizers: Fry Chicken Nuggets/Hot Wings/Egg Rolls/Sesame Balls

Banana Delight

Sardines

Tapioca Pearl (Boba)

Teriyaki Chicken
Breakfast Sandwiches
Asian Sandwiches
Euro Sandwiches – Baguette
Euro Sandwiches – Croissant
Vermicelli Dishes
Coffee
Tea
Smoothies
Italian Sodas
Iced Drinks
Juices
Frappe Drinks
Other Drinks: Soybean Milk

J. FORMS

Human Resources Sample Forms

Employee Handbook
New Hires Orientation Package Checklist
Job Descriptions
Line-Bar Schedule
Time Attendance Log Sheet
Personnel Action Notice Form
Leave of Absence/Time off Request Form
Mileage Log & Reimbursement Form
Disciplinary Notice Form
Work Injuries Forms:
Workers' Compensation Claim Form (DWC 1)
First Report Injury Form
Incident Report Form
Medical & Liability Waiver
Medical Services Request Form

Store Operations Management: QSI Outline to Cashier's Up-Sell Script

Lee's Sandwiches Store Operations (QSI) Outline
Lee's Sandwiches Store Operations – Department (QSI) Outline
Daily Operations Checklist
Opening Departmental Shift Procedure
Closing Departmental Shift Procedure
Cash Management: Daily Sales Deposit Worksheet

Daily Sales, COGs, & Labor Report
 Daily Food Production Report
 Food Waste/Loss Log
 Daily/Weekly/Monthly Cleaning & Maintenance Schedule
 Chemicals Cleaning Chart
 Julian Date Calendar
 Food Retail Products Shelf Life
 Meat Portioning Guideline
 Daily Meat Temperature Log
 Daily Equipment Temperature Log
 Cooking and Holding Temperature Requirements
 Cooked Foods Cooling Techniques
 G.R.E.A.T. Service
 Cashier's Up-Sell Script

Administration: Inventory Order to Brand to Image Audit

Inventory Order Guide
 Management Training Logs
 Employee Training Logs
 Management Performance Review
 Employee Performance Review
 Store Operations Audit
 General Safety and Sanitation Audit
 Brand & Image Audit

TOTAL	PAGES	566
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LEE'S SANDWICHES INTERNATIONAL, INC.

AREA DEVELOPMENT AGREEMENT

EXHIBIT E TO THE DISCLOSURE DOCUMENT

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
1. DEFINITIONS.....	1
2. DEVELOPMENT RIGHTS.....	2
2.1 Grant of Development Rights	2
2.2 Retained Rights	2
3. DEVELOPMENT FEE AND FRANCHISE FEES.....	3
3.1 Franchise Fees.....	3
3.2 Development Fee	4
4. DEVELOPMENT OF FRANCHISED BUSINESS	4
4.1 Minimum Development Obligation	4
4.2 Developer May Exceed Minimum Development Obligation.....	4
4.3 Exercise of Development Rights.....	4
4.4 Conditions Precedent to Franchisor's Obligation	5
4.5 No Subfranchising by Developer	5
4.6 Management Obligations	5
5. TERM	5
5.1 Term.....	5
6. MARKS AND CONFIDENTIAL INFORMATION	5
6.1 No License Under Development Agreement	5
6.2 Confidential Information.....	6
7. TRANSFERABILITY OF INTEREST	6
7.1 By Franchisor	6
7.2 By Developer	6
7.3 Transfer by Death or Incapacity.....	7
7.4 Public or Private Offerings.....	8
7.5 Franchisor's Right of First Refusal	8
8. DEFAULT AND TERMINATION	8
8.1 Termination Without Opportunity to Cure.....	8
8.2 Termination With Opportunity to Cure.....	9
9. RIGHTS AND DUTIES ON TERMINATION OR EXPIRATION	9
9.1 Loss of Development Rights.....	9
9.2 Amounts Owed to Franchisor	9
9.3 Confidential Information.....	9
9.4 Covenant Not to Compete.....	10
9.5 Continuing Obligations	10
10. BENEFICIAL OWNERS OF DEVELOPER.....	10
11. RELATIONSHIP AND INDEMNIFICATION	10
11.1 Relationship.....	10
11.2 Standard of Care.....	11
11.3 Indemnification	11
12. GENERAL CONDITIONS AND PROVISIONS	11

TABLE OF CONTENTS (continued)

<u>SECTION</u>	<u>PAGE</u>
12.1 Superiority of Franchise Agreement	11
12.2 No Waiver	12
12.3 Injunctive Relief	12
12.4 Notices	12
12.5 Cost of Enforcement or Defense	12
12.6 Unlimited Guaranty and Assumption of Obligations.....	13
12.7 Approvals	13
12.8 Entire Agreement	13
12.9 Severability and Modification.....	13
12.10 Construction	14
12.11 Force Majeure	14
12.12 Timing	14
12.13 Further Assurances.....	14
12.14 Third-Party Beneficiaries	14
12.15 Multiple Originals	14
13. DISPUTE RESOLUTION	14
13.1 Choice of Law	14
13.2 Consent to Jurisdiction.....	15
13.3 Cumulative Rights and Remedies	15
13.4 Limitations of Claims.....	15
13.5 Limitation of Damages.....	15
13.6 Waiver Of Jury Trial and Class Actions	16
13.7 Arbitration.....	16
14. ACKNOWLEDGMENTS	16
14.1 Receipt of this Development Agreement and the Franchise Disclosure Document.....	16
14.2 Consultation by Developer.....	17
14.3 True and Accurate Information.....	17
14.4 No Violation of Other Agreements	17

EXHIBITS

- A. DEVELOPMENT SCHEDULE
- B. UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATIONS
- C. HOLDERS OF LEGAL OR BENEFICIAL INTEREST IN DEVELOPER; OFFICERS, DIRECTORS, MANAGERS AND TRUSTEES
- D. MULTI-STATE ADDENDA TO THE AREA DEVELOPMENT AGREEMENT

LEE'S SANDWICHES INTERNATIONAL, INC.

AREA DEVELOPMENT AGREEMENT

This Area Development Agreement is made this ____ day of _____, 20____, and is by and between Lee's Sandwiches International, Inc., a California corporation, having its principal place of business at 660 E. Gish Road, San Jose, California 95112 ("Franchisor"), and _____ ("Developer").

WITNESSETH:

WHEREAS, Franchisor and Developer are concurrently entering into the Initial Franchise Agreement; and

WHEREAS, Developer desires to, and has applied for the right to, develop multiple Lee's Sandwiches Businesses* and has applied for such a right, and Franchisor has approved Developer's application in reliance upon all of the representations made herein and therein. Neither this Agreement nor any related agreement is intended to disclaim the representations made in the Franchise Disclosure Document.

NOW, THEREFORE, Franchisor and Developer, intending to be legally bound, agree as follows:

1. DEFINITIONS

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

"Developer" means the individual or entity defined as "Developer" in the introductory paragraph of this Development Agreement;

"Development Agreement" means this Development Agreement titled "Lee's Sandwiches International, Inc. Area Development Agreement" and all instruments supplemental hereto or in amendment or confirmation hereof;

"Development Fee" has the meaning given to such term in Section 3.2;

"Development Rights" means the rights granted to Developer pursuant to this Development Agreement to establish and operate Lee's Sandwiches Businesses in the Development Territory;

"Development Schedule" means the schedule attached as Exhibit A setting forth the number and the Opening Dates of Lee's Sandwiches Businesses to be established pursuant to this Development Agreement;

"Development Territory" has the meaning given to such term in Section 2.1;

"Franchise Agreement" means the then-currently used form of the Lee's Sandwiches International, Inc. Franchise Agreement that Franchisor is offering to new Developers;

* Capitalized terms not defined in Section 1 or in the text of this Development Agreement are defined in the Initial Franchise Agreement.

“Initial Franchise Agreement” means that certain Lee’s Sandwiches International, Inc. Franchise Agreement between Developer and Franchisor whereby Developer is granted the right to establish and operate its first Lee*s Sandwiches Business; and

“Opening Date” means any date by which Developer is required to begin operations for each Lee*s Sandwiches Business, as listed in the Development Schedule.

2. DEVELOPMENT RIGHTS

2.1 Grant of Development Rights

Subject to the provisions stated below, Franchisor hereby grants to Developer, pursuant to the terms and conditions of this Agreement, the Development Rights to establish and operate a minimum of ____ (_____) Franchised Businesses, including ____ (_____) Baguette Factory Production Unit Franchise(s), ____ (_____) Production Unit Franchise(s), and ____ (_____) Non-Production Unit Franchise(s) at sites located within a defined geographic area (“Development Territory”). The Development Territory shall be defined as follows:

2.2 Retained Rights

Franchisor shall not, so long as this Development Agreement is in force and effect and Developer is not in default under any of the terms hereof or of any Franchise Agreement for any Lee*s Sandwiches Business, establish, own or operate, or license others (other than Developer) to establish, own or operate, any Lee*s Sandwiches Business within the Development Territory pursuant to this Development Agreement; provided, however, Franchisor and its Affiliates retain the right:

2.2.1 to continue to own and operate, and allow others to continue to own and operate, Lee*s Sandwiches Businesses existing inside of the Development Territory as of the date of this Development Agreement, if any, and Developer shall respect any such Lee*s Sandwiches Businesses’ protected territories to the extent provided in such Businesses respective agreements with Franchisor;

2.2.2 to establish, own and operate, and grant to others the right to establish, own and operate, Lee*s Sandwiches Businesses outside of the Development Territory;

2.2.3 to establish, own and operate, and license others to establish, own and operate, businesses, whether using the Marks or not, different from the Lee*s Sandwiches Businesses that Developer will establish, both within and outside the Development Territory;

2.2.4 to purchase or otherwise acquire the assets or controlling ownership of one (1) or more businesses identical or similar to Lee*s Sandwiches Businesses (and/or acquire franchise, license and/or similar agreements for such businesses), some or all of which may be located anywhere, including within the Development Territory. If Franchisor purchases or acquires franchises or licenses, Franchisor may, in its sole discretion, act as franchisor or licensor with respect to such franchisees or licensees wherever located, pursuant to the individual franchise or license agreement(s) between Franchisor and such franchisee(s) or licensee(s);

2.2.5 to be acquired (regardless of the form of transaction) by any business, even if the other business operates, franchises and/or licenses Competitive Businesses within the Development Territory;

2.2.6 to use the Marks or other trademarks, service marks and commercial symbols in connection with sales to other restaurants, retail outlets and individual customers of any products and services, including those Developer's Lee*s Sandwiches Businesses are authorized to use in or sell from Lee*s Sandwiches Businesses;

2.2.7 to use the Marks or other trademarks, service marks and commercial symbols in connection with sales through alternate channels of distribution, such as joint marketing with partner companies, direct mail, grocery stores and outlets and Internet sales, of any products and services, including those Developer's Lee*s Sandwiches Businesses are authorized to use in or sell from their Lee*s Sandwiches Businesses, regardless of where the customer is located, and for a price that may be higher or lower than the price that Developer pays; and

2.2.8 to engage in any activities not expressly forbidden by this Development Agreement.

3. DEVELOPMENT FEE AND FRANCHISE FEES

3.1 Franchise Fees

Simultaneously, with the execution of this Development Agreement, Developer shall execute the Initial Franchise Agreement and shall pay a Franchise Fee of _____ DOLLARS (\$_____) for the first Lee*s Sandwiches Business to be developed pursuant to this Development Agreement. Such Franchise Fee is payable in addition to the Development Fee described in Section 3.2, below. The Franchise Fee for a Baguette Factory Production Unit shall be Sixty Thousand Dollars (\$60,000); shall be Forty-Eight Thousand Dollars (\$48,000) for a Production Unit; and shall be Forty Thousand Dollars (\$40,000) for a Non-Production Unit. Developer shall execute Franchise Agreements for the additional Lee*s Sandwiches Businesses to be developed on a periodic basis. Upon execution of each such Franchise Agreement, Developer shall pay Franchisor fifty percent (50%) of the Franchise Fee applicable to the type of Lee*s Sandwiches Business to be operated under such Franchise Agreement, e.g., Baguette Factory Production Unit, Production Unit, or Non-Production Unit.

3.2 Development Fee

Upon the execution of this Development Agreement, Developer shall pay a fee ("Development Fee") equal to _____ DOLLARS (\$_____), which amount is equal to fifty percent (50%) of the sum of all individual Franchise Fees applicable to the Lee*s Sandwiches Businesses Developer undertakes to open under this Development Agreement in addition to the first Lee*s Sandwiches Business. The Development Fee is fully earned by Franchisor and is non-refundable. Franchisor shall issue a credit in the following amounts for the second (2nd) and each subsequent Lee*s Sandwiches Business opened pursuant to, and in accordance with, this Development Agreement: the credit amount applied to a Baguette Factory Production Unit shall be Thirty Thousand Dollars (\$30,000); shall be Twenty-Four Thousand Dollars (\$24,000) for a Production Unit; and shall be Twenty Thousand Dollars (\$20,000) for a Non-Production Unit. The balance due Franchisor on Franchisee's execution of the Franchise Agreement for each such Lee*s Sandwiches Business shall be fifty percent (50%) of the applicable Franchise Fee, as provided in Section 3.1, above. In no event shall Franchisor issue an aggregate amount of credit greater than the amount of the Development Fee.

4. DEVELOPMENT OF FRANCHISED BUSINESS

4.1 Minimum Development Obligation

Developer shall strictly follow the Development Schedule set forth in Exhibit A. Time is of the essence. Developer shall lease, establish and operate Lee*s Sandwiches Businesses of the type, in the number and by the dates indicated in the Development Schedule. Developer shall at all times continuously maintain in operation, pursuant to each Franchise Agreement, at least the number of Lee*s Sandwiches Businesses required to be operational at such time as set forth in the Development Schedule; provided, however, that such obligation does not apply to Lee*s Sandwiches Businesses that are closed pursuant to Section 12.11.

4.2 Developer May Exceed Minimum Development Obligation

During the term of this Development Agreement, Developer may, subject to the terms and conditions of this Development Agreement, develop and operate more Lee*s Sandwiches Businesses in the Development Territory than required by this Development Agreement; provided, however, that Developer shall give Franchisor reasonable assurances that Developer has the required skill, financial resources and managerial skills to perform its duties under this Development Agreement and each Franchise Agreement. Developer shall pay the full Franchise Fee for each additional Lee*s Sandwiches Business developed in excess of the requirements of this Development Agreement, and Franchisor shall not credit any part of the Development Fee against the Franchise Fee for any additional Lee*s Sandwiches Business.

4.3 Exercise of Development Rights

Developer shall submit a separate application and enter into a separate Franchise Agreement for each additional Lee*s Sandwiches Business established pursuant to this Development Agreement. Upon approval of the site by Franchisor, as provided in Section 5.1 of the Franchise Agreement, Franchisor shall deliver two (2) copies of the Franchise Agreement along with a copy of its then-current Disclosure Document. Immediately upon receipt of the Disclosure Document, Developer shall return to Franchisor a signed copy of the acknowledgment of Receipt of the Disclosure Document. After any applicable waiting periods have expired, Developer shall execute and deliver to Franchisor two (2) copies of the Franchise Agreement and shall pay the Franchise Fee, less any applicable credit as provided in Section 3.2.

4.4 Conditions Precedent to Franchisor's Obligation

Franchisor shall not execute the Franchise Agreement if: (a) Developer is not in compliance with all, or is in default of any, of its obligations under this Development Agreement or any other agreement between Franchisor and Developer; or (b) in the case of each then existing Franchise Agreement, Developer, as Franchisee, is not in compliance with all, or is in default of any, of its obligations under any Franchise Agreement. Franchisor and Developer shall execute the Franchise Agreement for each additional Lee*s Sandwiches Business before the date stated in the Development Schedule that such Lee*s Sandwiches Business must be established and operating.

4.5 No Subfranchising by Developer

Developer has no right under this Development Agreement to sublicense, subfranchise, resell, or otherwise transfer any interest in any Franchised Business.

4.6 Management Obligations

Each Lee*s Sandwiches Business developed pursuant to this Agreement must always be under the direct full-time supervision of Developer. Developer's Designated Owners must devote their full-time efforts (at least thirty-five [35] hours per week) to the management of the day-to-day operation of the Lee*s Sandwiches Businesses developed pursuant to this Development Agreement.

5. TERM

5.1 Term

Unless sooner terminated in accordance with the terms of this Development Agreement, the term of this Development Agreement and all Development Rights granted hereunder to Developer shall expire on the last Opening Date as set forth in the Development Schedule. At the end of the term of this Development Agreement, the exclusive Development Rights with respect to the Development Territory will automatically terminate, and Developer shall have no right to renew or extend the term of this Development Agreement.

6. MARKS AND CONFIDENTIAL INFORMATION

6.1 No License Under Development Agreement

Notwithstanding any provision to the contrary under this Development Agreement, this Development Agreement does not grant Developer any right to use the Marks. The right to use the Marks may only be granted by the terms of a Franchise Agreement. Developer shall not use any Mark as part of any corporate or trade name or with any prefix, suffix, or other modifying words, terms designs, or symbols, or in any modifying words, terms designs or symbols, or in any modified form, nor may Developer use any Mark in connection with any business or activity other than the business conducted by Developer pursuant to a Franchise Agreements or in any other manner not explicitly authorized in writing by Franchisor.

6.2 Confidential Information

Except as hereinafter provided, Developer shall not, during the term of this Development Agreement or at any time thereafter, communicate, divulge or use for the benefit of any other person or entity, any Trade Secrets or other Confidential Information which may be communicated to Developer or of which Developer may learn by virtue of Developer's activities under this Development Agreement. Developer may divulge Trade Secrets and other Confidential Information only to such of its employees and/or independent contractors as deemed necessary by Developer. At Franchisor's request, and except as prohibited by law, Developer shall require its employees, independent contractors and any other person to whom Developer wishes to disclose any Trade Secrets or other Confidential Information to execute a nondisclosure and non-competition agreement in a form the same as or similar to the Nondisclosure and Non-Competition Agreement attached to the Initial Franchise Agreement.

7. TRANSFERABILITY OF INTEREST

7.1 By Franchisor

This Development Agreement and all rights hereunder may be assigned and transferred by Franchisor and, if so, shall be binding upon and inure to the benefit of Franchisor's successors and assigns; provided, however, that with respect to any assignment resulting in the subsequent performance by the assignee of the functions of Franchisor, the assignee shall assume the obligations of Franchisor hereunder and Franchisor shall have no liability for the performance of any obligations contained in this Development Agreement after the effective date of such transfer or assignment.

7.2 By Developer

7.2.1 The Development Rights set forth in this Development Agreement are personal to Developer and are granted in reliance upon the personal qualifications of Developer. Developer has represented, and hereby represents, that it is entering into this Development Agreement with the intention of complying with its terms and conditions and not for the purpose of resale of the Development Rights hereunder.

7.2.2 Developer, without Franchisor's prior written consent, by operation of law or otherwise, shall not sell, assign, transfer, convey, give away or encumber any part of its interest in this Development Agreement, its interest in the Development Rights granted hereby or its interest in any entity that owns any interest in such rights, and shall not offer, permit or suffer the same to be sold, assigned, transferred, conveyed, given away or encumbered in any way. If Developer is a business entity, no ownership interest in Developer shall be sold, assigned, transferred, conveyed, given away or encumbered in any way without Franchisor's prior written consent. Developer shall not, without the prior written consent of Franchisor, fractionalize any of the Development Rights granted pursuant to this Development Agreement. Any purported sale, assignment, transfer, conveyance, gift or encumbrance of any ownership interest in Developer, if Developer is a business entity, or of Developer's rights herein not having Franchisor's express consent shall be null and void and shall constitute a material default of this Development Agreement.

7.2.3 So long as Developer is in full compliance with this Development Agreement, and should Franchisor not elect to exercise its right of refusal as provided in Section 7.5, Franchisor shall not unreasonably withhold its approval of an assignment or transfer to proposed assignees or transferees if:

7.2.3.1 Developer has complied with the requirements of Section 7.5;

7.2.3.2 all obligations owed to Franchisor by Developer are fully paid and satisfied;

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

7.2.3.4 the prospective transferee has satisfied Franchisor that it meets Franchisor's management, business and financial standards, and otherwise possesses the character and capabilities, including business reputation and credit rating, as Franchisor may require to demonstrate its ability to carry out the obligations contained herein and in the Franchise Agreement;

7.2.3.5 the transferee has executed a general release, in a form the same as or similar to the General Release attached to the Initial Franchise Agreement, of any and all claims against Franchisor and its equity owners, officers, directors and employees, in their corporate and individual capacities, with respect to any representations regarding the Franchise or the business conducted pursuant thereto or any other matter that may have been made to the transferee by Developer;

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

7.2.3.7 Developer, or the transferee, has paid to Franchisor a transfer fee in the amount of FIVE THOUSAND DOLLARS (\$5,000.00);

7.2.3.8 the transferee, or all holders of a legal or beneficial interest in the transferee, has agreed to be personally bound jointly and severally by all provisions of this Development Agreement for the remainder of its term;

7.2.3.9 the transferee has obtained all necessary consents and approvals by third parties and all applicable federal, state and local laws, rules, ordinances and requirements applicable to the transfer have been complied with or satisfied; and

7.2.3.10 Developer has, and if Developer is an entity, all of the holders of a legal and beneficial interest in Developer have, executed and delivered to Franchisor a nondisclosure and non-competition agreement in a form the same as or similar to the Nondisclosure and Non-Competition Agreement attached to the Initial Franchise Agreement.

7.3 Transfer by Death or Incapacity

Upon the death or Incapacity (as determined by a court of competent jurisdiction) of Developer or any holder of a legal or beneficial interest in Developer, if Developer is an entity, the appropriate representative of such person (whether administrator, personal representative or trustee) will, within a reasonable time not exceeding one hundred eighty (180) days following such event, transfer such individual's interest herein or transfer such

individual's ownership of all or any part of the Development Rights to a third party approved by Franchisor. Such transfers, including transfers by will or inheritance, shall be subject to the conditions for assignments and transfers contained in this Development Agreement.

7.4 Public or Private Offerings

If Developer desires to make either a public or a private offering of its securities, prior to such offering and sale and prior to the public release of any statements, data or other information of any kind relating to the proposed offering of Developer's securities, Developer shall secure the written approval of Franchisor, which approval shall not be unreasonably withheld. Developer shall secure Franchisor's prior written approval of any and all press releases, news releases and any and all other publicity, the primary purpose of which is in the public interest in its offering. Only to the extent that written approval has been given by Franchisor may Developer proceed to file, publish, issue and release and make public any data, material or information regarding its securities offering. Any review by Franchisor is solely for its own information, and its approval shall not constitute any kind of authorization, acceptance, agreement, endorsement, approval or ratification of the same, either express or implied; and Developer shall make no oral or written notice of any kind whatsoever indicating or implying that Franchisor or related corporations or persons have any interest in or relationship whatsoever to the proposed offering other than acting as Franchisor. Developer shall indemnify and hold harmless Franchisor and its subsidiaries, and their owners, directors, officers, employees, successors and assigns, from all claims, demands, costs, fees, charges, liabilities or expenses (including attorneys' fees) of any kind whatsoever arising from Developer's offering or information published or communicated and any actions taken with regard thereto.

7.5 Franchisor's Right of First Refusal

If Developer or its owners shall at any time determine to sell, assign, transfer, convey, give away or encumber the Development Rights under this Development Agreement or any of their respective ownership interests in Developer, or any of Developer's assets (except in the ordinary course of business), Developer or its owners shall obtain a *bona fide*, executed written offer from a responsible and fully disclosed purchaser and shall submit an exact copy of such offer to Franchisor, and Franchisor shall, for a period of thirty (30) days from the date of delivery of such offer, have the right, exercisable by written notice to Developer, to purchase such interests for the price and on the terms and conditions contained in such offer; provided, however, that Franchisor may substitute cash for any form of payment proposed in such offer and that Franchisor shall have not less than sixty (60) days from the date of delivery of its written notice of intent to purchase to complete such purchase. Franchisor's credit shall be deemed at least equal to the credit of said purchaser. If Franchisor does not exercise this right of first refusal, Developer may complete the sale of such interest, subject to Section 7.2. If such sale, assignment, transfer, conveyance, gift or encumbrance is not completed within one hundred and twenty (120) days after delivery of such offer to Franchisor, Franchisor shall again have the right of first refusal provided herein.

8. DEFAULT AND TERMINATION

8.1 Termination Without Opportunity to Cure

Franchisor has the right to immediately terminate this Development Agreement by delivering a notice to Developer stating that Franchisor elects to terminate this Development Agreement as a result of any of the breaches set forth below:

8.1.1 Developer makes or attempts to make an unauthorized sale, assignment, transfer, conveyance, gift or encumbrance of any part of its interest in this Development Agreement or an ownership interest in Developer;

8.1.2 Developer has made any material misrepresentation or omission in its application for the Development Rights conferred by this Development Agreement;

8.1.3 Developer is convicted of or pleads no contest to a felony or other crime or offense that may adversely affect the goodwill associated with the Marks;

8.1.4 Developer makes any unauthorized use of the Marks or unauthorized use or disclosure of the Confidential Information;

8.1.5 Franchisor has delivered a notice of termination for a Franchise Agreement between Franchisor and Developer in accordance with its terms and conditions, or Developer has terminated a Franchise Agreement without cause;

8.1.6 Developer fails to meet or satisfy any timing requirement or deadline contained in the Development Schedule; or

8.1.7 Developer fails to comply with any other provision of the Development Agreement and does not correct within thirty (30) days after written notice from Franchisor.

8.2 Termination With Opportunity to Cure

Except as provide in Section 8.1, above, if Developer fails to comply with any provision of this Development Agreement, Franchisor may terminate this Development Agreement by delivering notice of termination to Developer stating the reason for termination, provided that Developer shall have the right to cure such non-compliance within thirty (30) days after delivery of Franchisor's notice of termination.

9. RIGHTS AND DUTIES ON TERMINATION OR EXPIRATION

9.1 Loss of Development Rights

Upon termination or expiration of this Development Agreement, the Development Rights granted to Developer under this Development Agreement shall automatically terminate. Developer shall have no additional rights to establish or operate any Lee's Sandwiches Business for which a Franchise Agreement has not been executed by Franchisor and Developer. No default under this Development Agreement shall constitute a default under any Franchise Agreement between the parties, except to the extent that any default under this Development Agreement constitutes a default under any Franchise Agreement in accordance with the terms of the Franchise Agreement. Notwithstanding the above, the terms and conditions of each Franchise Agreement must be complied with by the Developer thereunder and shall control in determining whether any default exists under such Franchise Agreement.

9.2 Amounts Owed to Franchisor

Developer shall immediately pay to Franchisor upon termination or expiration of the Development Agreement any amounts owed by Developer to Franchisor that are then unpaid, plus any interest due.

9.3 Confidential Information

Upon termination or expiration of this Development Agreement, Developer and all of its employees, agents or other representatives shall immediately sign a confidentiality agreement, and will cease to use

and maintain the absolute confidentiality of any Trade Secrets and other Confidential Information disclosed or otherwise learned or acquired by Developer and shall not use such Trade Secrets and other Confidential Information in any other business or venture.

9.4 Covenant Not to Compete

During the term and after the termination of this Development Agreement, Developer and any owner of a five percent (5%) or greater interest in Developer shall be subject to all of the restrictive covenants set forth in Sections 7.3, 7.4 and 18.2 of the Initial Franchise Agreement, which covenants by this reference are incorporated herein.

9.5 Continuing Obligations

All obligations of Franchisor and Developer under this Development Agreement that expressly or by their nature survive the expiration or termination of this Development Agreement shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Development Agreement and until they are satisfied in full or by their nature expire.

10. BENEFICIAL OWNERS OF DEVELOPER

Developer represents, and Franchisor enters into this Development Agreement in reliance upon such representation, that the individuals identified in Exhibit C as Holders of a Legal or Beneficial Interest are the sole holders of a legal or beneficial interest (in the stated proportions) of Developer.

11. RELATIONSHIP AND INDEMNIFICATION

11.1 Relationship

This Development Agreement is purely a contractual relationship between the parties and does not appoint or make Developer an agent, legal representative, joint venturer, partner, joint employer, employee, servant or independent contractor of Franchisor for any purpose whatsoever. Developer may not represent or imply to third parties that Developer is an agent of Franchisor, and Developer is in no way authorized to make any contract, agreement, warranty or representation on behalf of Franchisor, or to create any obligation, express or implied, on Franchisor's behalf. Developer must comply with Franchisor's requirements for identifying Developer's business and its operations as independently owned and operated and will include notices of independent ownership on forms, business cards, stationery, advertising, signs, media postings and other materials and publications as Franchisor requires. Developer shall be responsible for all acts and omissions of Developer's employees, managers, independent contractors, and representatives, regardless of whether or not Developer had actual knowledge of such act or omission. Developer is and shall remain at all times completely independent and in business for itself, and shall have no right or interest in any of Franchisor's property or business. Developer is free to conduct its business in compliance with this Agreement and as it deems best, independently of the supervision, management and control of Franchisor. Developer is solely responsible for hiring, firing, discipline and supervision of Developer's employees, the terms and conditions of their employment and all other matters related to their employment. Franchisor has no management of, control over or involvement in any such employment matters. At no time will Developer's employees be, or be deemed to be, Franchisor's employees or the employees of any Franchisor Affiliate. Developer commits to ensure that each of Developer's employees are advised of and understand Developer's relationship with Franchisor, as described herein. Under no circumstances shall Franchisor be liable for any act, omission, contract, debt or any other obligation of Developer. In no event shall this Development Agreement or any conduct pursuant hereto make Franchisor a fiduciary with respect to Developer.

Franchisor shall in no way be responsible for any injuries to persons or property resulting from the development of any Lee's Sandwiches Business pursuant to this Development Agreement. Any third party contractors and vendors retained by Developer for remodeling or construction are independent contractors of Developer alone.

11.2 Standard of Care

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

11.3 Indemnification

Developer shall notify Franchisor in writing of any and all claims or demands against Developer, the Developer's business or Franchisor within three (3) days after Developer receives actual notice of the claim or demand. Developer will defend with counsel of Franchisor's choosing, indemnify and hold Franchisor and Franchisor's Affiliates and each of their respective agents, officers, partners, members, shareholders, directors, employees, agents and representatives (the "Indemnified Parties") harmless from all fines, suits, proceedings, claims, demands, actions, losses, damages, costs, fees (including Attorneys' Fees and related legal costs and expenses), governmental/administrative actions or proceedings and any other liability of any kind or nature, however arising, growing out of or otherwise connected with and/or related to any Developer breach of this Agreement, the ownership or operation of Developer's development business, an asserted breach of lease or violation of any law or regulation or any act, error and/or omission by Developer and/or any Developer Affiliates, agents, officers, partners, members, shareholders, directors, employees or representatives. Franchisor will have the right to control all litigation to which it is a party and to defend and/or settle any claim in such manner as Franchisor considers appropriate, without affecting Franchisor's or the Indemnified Parties' rights under this indemnity. Franchisee acknowledges that this obligation to indemnify and reimburse Indemnified Parties for costs and expenses, as described above, applies to any action or proceeding or legal matter of any kind in which one or more Indemnified Parties is/are named or involved and which also involves this Agreement and/or Developer's business, including any administrative actions or investigations and appellate, post judgment or bankruptcy proceedings. Developer further acknowledges that this obligation to indemnify and reimburse Indemnified Parties for costs and expenses, as described above, expressly applies to claims from persons employed by or providing services to Developer involving allegations of a violation the Fair Labor Standards Act, the Occupational Safety and Health Act, any state workers' compensation act, any state unemployment compensation benefit law or regulation, or any other federal, state or local employment or employee benefit law or regulation, and regardless of the basis of the alleged liability, whether joint employer, ostensible agency, vicarious liability or otherwise. All amounts payable by Developer under this Section 11.3 are due upon demand. Developer is entitled to appoint separate independent counsel to represent Developer's interests in such suits, proceedings, or claims, all at Developer's expense.

12. GENERAL CONDITIONS AND PROVISIONS

12.1 Superiority of Franchise Agreement

For each Lee's Sandwiches Business developed by Developer in the Development Territory, a separate Franchise Agreement shall be executed and any individual franchise fee as prescribed by Franchisor shall be paid to Franchisor. Developer acknowledges that any and all Franchise Agreements executed in connection with an

Lee's Sandwiches International, Inc.
Area Development Agreement
4.2023

individual Lee*s Sandwiches Business within the Development Territory are independent of this Development Agreement. The continued existence of any such Franchise Agreement shall not depend on the continuing existence of this Development Agreement. If any conflict shall arise in connection with this Development Agreement and any such Franchise Agreement, the latter shall have precedence and superiority over the former; provided that if a Lee*s Sandwiches Business is required to be open under the Development Schedule earlier than a date prescribed under the terms of the applicable Franchise Agreement, the Development Schedule shall control.

12.2 No Waiver

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

12.3 Injunctive Relief

As any breach by Developer of any of the restrictions contained in Sections 6.1, 6.2, 7.4, 9.3 or 9.4 would result in irreparable injury to Franchisor, and as the damages arising out of any such breach would be difficult to ascertain, in addition to all other remedies provided by law or in equity, Franchisor shall be entitled to seek injunctive relief (whether a restraining order, a preliminary injunction or a permanent injunction) against any such breach, whether actual or contemplated.

12.4 Notices

All notices required or permitted under this Development Agreement shall be in writing and shall be deemed received: (a) at the time delivered by hand to the recipient party (or to an officer, director or partner of the recipient party); (b) on the next business day after transmission by facsimile or other reasonably reliable electronic communication system when accompanied by system-generated confirmation of successful transmission; (c) on the next business day after being sent via guaranteed overnight delivery by a commercial courier service; or (d) five (5) business days after being sent by Registered Mail, return receipt requested. All notices shall be sent to Developer at the address listed on page one (1) of this Development Agreement, or such other address as Developer may designate in writing to Franchisor. All notices, payments and reports required by this Development Agreement shall be sent to Franchisor at the following address unless and until a different address has been designated in writing to Developer:

Lee's Sandwiches International, Inc.
Attn: President
660 E. Gish Road
San Jose, California 95112

12.5 Cost of Enforcement or Defense

If Franchisor or Developer is required to enforce this Development Agreement in a judicial or arbitration proceeding, the prevailing party shall be entitled to reimbursement of all of its costs and expenses incurred including, without limitation, reasonable accounting and attorneys' fees and related fees and costs, in

Lee's Sandwiches International, Inc.
Area Development Agreement
4.2023

connection with such proceeding. If Franchisor incurs costs and expenses due to Developer's failure to pay when due amounts owed to Franchisor or its Affiliates, to submit when due any reports, information, or supporting records, or otherwise comply with this Development Agreement, Developer agrees, whether or not Franchisor initiates a formal legal proceeding, to reimburse Franchisor for all of the costs and expenses that Franchisor incurs including, without limitation, reasonable accounting, attorneys' and related fees and costs.

12.6 Unlimited Guaranty and Assumption of Obligations

All holders of a legal or beneficial interest in Developer of five percent (5%) or greater shall be required to execute, as of the date of this Development Agreement, the Unlimited Guaranty and Assumption of Obligations attached as Exhibit B, through which such holders agree to assume and discharge all of Developer's obligations under this Development Agreement and to be personally liable hereunder for all of the same. Franchisor reserves the right to require spouses of each of the foregoing holders also to execute such a guaranty.

12.7 Approvals

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

12.8 Entire Agreement

Subject to Section 12.1, this Development Agreement, its exhibits and the documents referred to herein shall be construed together and constitute the entire, full and complete agreement between Franchisor and Developer concerning the subject matter hereof, and shall supersede all prior agreements. Nothing in this Development Agreement or in any related agreement is intended to disclaim the representations made in the Franchise Disclosure Document. No amendment, change or variance from this Development Agreement shall be binding on either party unless executed in writing by both parties.

12.9 Severability and Modification

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

12.9.2 Notwithstanding the above, each of the covenants contained in Sections 6 and 9 shall be construed as independent of any other covenant or provision of this Development Agreement. If all or any portion of any such covenant is held to be unenforceable, unreasonable or invalid, then it shall be amended to provide for limitations on disclosure of Confidential Information or on competition to the maximum extent permitted by law.

12.10 Construction

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

12.11 Force Majeure

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

12.12 Timing

Time is of the essence. Except as set forth in Section 12.11, failure to perform any act within the time required or permitted by this Development Agreement shall be a material breach.

12.13 Further Assurances

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

12.14 Third-Party Beneficiaries

Anything to the contrary notwithstanding, nothing in this Development Agreement is intended, nor shall be deemed, to confer any rights or benefits upon any person or legal entity other than Franchisor or Developer, and their respective successors and assigns.

12.15 Multiple Originals

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

13. DISPUTE RESOLUTION

13.1 Choice of Law

Except to the extent of the applicability of the Federal Arbitration Act and related federal preemption requirements, this Agreement and all other matters concerning this Agreement and/or Franchisor (or any Franchisor Affiliate) and Developer, their relationship and/or respective rights and obligations, will be governed by, and construed and enforced in accordance with, the laws of the state of California, without giving effect to any conflict of laws; PROVIDED, i) the provisions of the California Franchise Relations Act and the California Franchise Investment Law and any other California statute, regulation or law regarding franchise offers and sales, business opportunities, seller assisted marketing plans and/or franchise relationships shall not apply unless jurisdictional, definitional and other requirements thereof are met independently of this Section; and ii) the provisions of Sections 9.3 and 9.4 shall be construed and enforced in accordance with the laws of the state where *Lee's Sandwiches International, Inc.*
Area Development Agreement
4.2023

the claimed breach of such Section(s) occurs. The Federal Arbitration Act shall govern all matters subject to arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency.

13.2 Consent to Jurisdiction

Any action brought by either party, except those claims required to be submitted to arbitration, shall be brought in the appropriate state or federal court located in or serving Santa Clara County, California. The parties waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision. The parties hereby submit to service of process by registered mail, return receipt requested, or by any other manner provided by law. Claims for injunctive relief may be brought by Franchisor where Developer is located. This exclusive choice of jurisdiction and venue provision shall not restrict the ability of the parties to confirm or enforce judgments or arbitration awards in any appropriate jurisdiction.

13.3 Cumulative Rights and Remedies

No right or remedy conferred upon or reserved to Franchisor or Developer by this Development Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be in addition to every other right or remedy. Nothing contained herein shall bar Franchisor's right to obtain injunctive relief against threatened conduct that may cause it loss or damages, including obtaining restraining orders and preliminary and permanent injunctions.

13.4 Limitations of Claims

Any claim concerning the Development Rights or this Development Agreement or any related agreement shall be barred unless an action for that claim is commenced within one (1) year from the date on which Developer or Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim. Notwithstanding the above, Franchisor's claims attributable to underreporting, failure to pay monies owed and/or indemnification should be subject to applicable state or federal statutes of limitation.

13.5 Limitation of Damages

Developer and Franchisor each waive, to the fullest extent permitted by law, any right or claim for any punitive or exemplary damages against the other, and agree that if there is a dispute with the other, each shall be limited to the recovery of actual damages sustained by it including reasonable accounting and legal fees as provided in Section 12.5. Developer waives and disclaims any right to consequential damages in any action or claim against Franchisor concerning this Development Agreement or any related agreement. In any claim or action brought by Developer against Franchisor concerning this Development Agreement, Developer's contract damages shall not exceed and shall be limited to refund of Developer's Development Fee payments.

13.6 Waiver Of Jury Trial and Class Actions

DEVELOPER AND FRANCHISOR EACH IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, WHETHER AT LAW OR EQUITY, BROUGHT BY EITHER OF THEM, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW.

ANY ARBITRATION OR OTHER LEGAL PROCEEDING BETWEEN FRANCHISOR OR ANY FRANCHISOR AFFILIATE AND DEVELOPER AND ANY DEVELOPER AFFILIATE OR OWNER SHALL BE BROUGHT AS AN INDIVIDUAL CLAIM AND SHALL NOT BE ARBITRATED OR LITIGATED ON A CLASS-WIDE, CLASS ACTION OR CONSOLIDATED BASIS, TO THE FULLEST EXTENT PERMITTED BY LAW.

13.7 Arbitration

This Development Agreement evidences a transaction involving commerce and, therefore, the Federal Arbitration Act, Title 9 of the United States Code is applicable to the subject matter contained herein. Except for controversies or claims relating to the ownership of any and all intellectual property rights, including, but not limited to, Franchisor's Marks, copyrights or the unauthorized use or disclosure of Franchisor's Confidential Information and except for claims for injunctive relief, all disputes arising out of or relating to this Development Agreement or to any other agreements between the parties, or with regard to interpretation, formation or breach of this or any other agreement between the parties, shall be settled by binding arbitration conducted in Santa Clara County, California, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. The proceedings will be held by a single arbitrator agreed upon by the parties or otherwise appointed by the Circuit Court for the State of California and located in Santa Clara County, California. The decision of the arbitrator shall be final and binding upon the parties. Judgment upon the award rendered by the arbitrator may be entered in any court having personal and subject matter jurisdiction.

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

14. ACKNOWLEDGMENTS

14.1 Receipt of this Development Agreement and the Franchise Disclosure Document

No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

Developer represents and acknowledges that it has received this Development Agreement and Franchisor's Franchise Disclosure Document. Developer represents and acknowledges that it has received an exact copy of this Development Agreement and its exhibits at least fourteen (14) calendar-days prior to the date on which this Development Agreement was executed, the disclosure document required by the Trade Regulation Rule of the Federal Trade Commission entitled Disclosure Requirements and Prohibitions Concerning Franchising.

14.2 Consultation by Developer

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

14.3 True and Accurate Information

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

14.4 No Violation of Other Agreements

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

IN WITNESS WHEREOF, the parties have duly executed and delivered this Development Agreement on the day and year first above written.

LEE'S SANDWICHES INTERNATIONAL, INC.

By: _____

Title: _____

Developer: _____

(type/print name)

By: _____

Title: _____

EXHIBIT A TO THE
AREA DEVELOPMENT AGREEMENT

DEVELOPMENT SCHEDULE

Franchised Business No.	OPENING DATE	Type of Unit to be Opened (e.g., Baguette Factory Production, Production, Non- Production, etc.)	Cumulative Number of all Franchised Businesses to be in Operation by the applicable Opening Date
1			
2			
3			
4			
5			

* For each Franchised Business to be established pursuant to this Development Agreement, assign a Business Number, i.e., 1, 2, 3, etc., a date by which the Franchised Business is required to be open "Opening Date," the type of unit to be opened, as applicable, and the cumulative number of open Franchised Businesses. The cumulative number shall take into account any Franchised Businesses, which Developer has established or is in the process of opening or that were purchased from a transferring franchisee, as the case may be, prior to entering into this Development Agreement.

EXHIBIT B TO THE
AREA DEVELOPMENT AGREEMENT

UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATIONS

THIS UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATIONS is given this _____ day of _____, 20_____, in connection with that certain Area Development Agreement of even date herewith (which Area Development Agreement, as may have been modified, amended and/or supplemented in writing, is hereunder called the Area Development Agreement) by and between Lee's Sandwiches International, Inc., as "Franchisor" and _____ as "Developer".

As used herein, "Related Agreement" shall mean any agreement entered into by and between Franchisor and Developer or any Affiliate (as defined in the Area Development Agreement) in connection with or relating to the Area Development Agreement.

For valuable consideration received, and as an inducement to Franchisor to enter into the Area Development Agreement, the undersigned ("Guarantor") hereby unconditionally guarantees to Franchisor and its Affiliates: (a) the full and timely performance by Developer of the Area Development Agreement and each related Agreement and all terms, conditions and covenants thereof, and (b) the payment by Developer of royalties and all other sums payable by Developer under the Area Development Agreement and each Related Agreement.

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

The obligations of Guarantor herein shall be co-extensive with those of Developer under the Area Development Agreement and each Related Agreement and shall remain in effect as long as Developer's obligations under the Area Development Agreement and each Related Agreement are in effect. This Guaranty Agreement is absolute and unconditional and shall continue without being affected by any impairment, release or limitation of the liability of Developer or its estate in bankruptcy resulting from the operation of any present or future provision of the Bankruptcy Code of the United States or from the decision of any court interpreting the same. Guarantor further agrees to be bound by each and every obligation of Developer under the Area Development Agreement and

each Related Agreement, with the same force and effect as if Guarantor were designated in and had executed the Area Development Agreement and each Related Agreement as Developer thereunder.

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

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

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

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

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

Guarantor acknowledges having read and understood the Area Development Agreement and Guarantor agrees that this Guaranty and all other matters concerning Franchisor and Guarantor and/or their respective rights and obligations will be governed by, and construed and enforced in accordance with the dispute resolution provisions of Sections 12 and 13 of the Area Development Agreement, as though Guarantor was "Developer" for purposes of such Section. Section 12 and 13 are attached to this Guaranty and incorporated by reference.

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

The Guaranty Agreement contains the entire agreement between the parties with respect to the matters covered hereby, and Guarantor acknowledges that no agent, representative, salesman or officer of Franchisor or any

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

Guarantor fully and expressly intends that the foregoing requirements as to a writing be strictly adhered to and strictly interpreted and enforced by any court which may be asked to consider the matter. This Guaranty shall be effective for the full term of the Area Development Agreement and each Related Agreement, including any extensions or renewals thereof for so long as any performance is or might be owed under this Agreement and for so long as Franchisor has any cause of action against Franchisee or any Guarantor.

GUARANTOR:

Notice Address: _____

**Sections 12 and 13 of the Area Development Agreement
(Attachment to Guarantee)**

15. GENERAL CONDITIONS AND PROVISIONS

12.1 Superiority of Franchise Agreement

For each Lee's Sandwiches Business developed by Developer in the Development Territory, a separate Franchise Agreement shall be executed and any individual franchise fee as prescribed by Franchisor shall be paid to Franchisor. Developer acknowledges that any and all Franchise Agreements executed in connection with an individual Lee's Sandwiches Business within the Development Territory are independent of this Development Agreement. The continued existence of any such Franchise Agreement shall not depend on the continuing existence of this Development Agreement. If any conflict shall arise in connection with this Development Agreement and any such Franchise Agreement, the latter shall have precedence and superiority over the former; provided that if a Lee's Sandwiches Business is required to be open under the Development Schedule earlier than a date prescribed under the terms of the applicable Franchise Agreement, the Development Schedule shall control.

12.2 No Waiver

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

12.3 Injunctive Relief

As any breach by Developer of any of the restrictions contained in Sections 6.1, 6.2, 7.4, 9.3 or 9.4 would result in irreparable injury to Franchisor, and as the damages arising out of any such breach would be difficult to ascertain, in addition to all other remedies provided by law or in equity, Franchisor shall be entitled to seek injunctive relief (whether a restraining order, a preliminary injunction or a permanent injunction) against any such breach, whether actual or contemplated.

12.4 Notices

All notices required or permitted under this Development Agreement shall be in writing and shall be deemed received: (a) at the time delivered by hand to the recipient party (or to an officer, director or partner of the recipient party); (b) on the next business day after transmission by facsimile or other reasonably reliable electronic communication system when accompanied by system-generated confirmation of successful transmission; (c) on the next business day after being sent via guaranteed overnight delivery by a commercial courier service; or (d) five (5) business days after being sent by Registered Mail, return receipt requested. All notices shall be sent to Developer at the address listed on page one (1) of this Development Agreement, or such other address as Developer may designate in writing to Franchisor. All notices, payments and reports required by this Development Agreement shall be sent to Franchisor at the following address unless and until a different address has been designated in writing to Developer:

Lee's Sandwiches International, Inc.
Attn: President
660 E. Gish Road
San Jose, California 95112

12.5 Cost of Enforcement or Defense

If Franchisor or Developer is required to enforce this Development Agreement in a judicial or arbitration proceeding, the prevailing party shall be entitled to reimbursement of all of its costs and expenses incurred including, without limitation, reasonable accounting and attorneys' fees and related fees and costs, in connection with such proceeding. If Franchisor incurs costs and expenses due to Developer's failure to pay when due amounts owed to Franchisor or its Affiliates, to submit when due any reports, information, or supporting records, or otherwise comply with this Development Agreement, Developer agrees, whether or not Franchisor initiates a formal legal proceeding, to reimburse Franchisor for all of the costs and expenses that Franchisor incurs including, without limitation, reasonable accounting, attorneys' and related fees and costs.

12.6 Unlimited Guaranty and Assumption of Obligations

All holders of a legal or beneficial interest in Developer of five percent (5%) or greater shall be required to execute, as of the date of this Development Agreement, the Unlimited Guaranty and Assumption of Obligations attached as Exhibit B, through which such holders agree to assume and discharge all of Developer's obligations under this Development Agreement and to be personally liable hereunder for all of the same. Franchisor reserves the right to require spouses of each of the foregoing holders also to execute such a guaranty.

12.7 Approvals

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

12.8 Entire Agreement

Subject to Section 12.1, this Development Agreement, its exhibits and the documents referred to herein shall be construed together and constitute the entire, full and complete agreement between Franchisor and Developer concerning the subject matter hereof, and shall supersede all prior agreements. Nothing in this Development Agreement or in any related agreement is intended to disclaim the representations made in the Franchise Disclosure Document. No amendment, change or variance from this Development Agreement shall be binding on either party unless executed in writing by both parties.

12.9 Severability and Modification

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

12.9.2 Notwithstanding the above, each of the covenants contained in Sections 6 and 9 shall be construed as independent of any other covenant or provision of this Development Agreement. If all or any portion of any such covenant is held to be unenforceable, unreasonable or invalid, then it shall be amended to provide for limitations on disclosure of Confidential Information or on competition to the maximum extent permitted by law.

12.10 Construction

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

12.11 Force Majeure

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

12.12 Timing

Time is of the essence. Except as set forth in Section 12.11, failure to perform any act within the time required or permitted by this Development Agreement shall be a material breach.

12.13 Further Assurances

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

12.14 Third-Party Beneficiaries

Anything to the contrary notwithstanding, nothing in this Development Agreement is intended, nor shall be deemed, to confer any rights or benefits upon any person or legal entity other than Franchisor or Developer, and their respective successors and assigns.

12.15 Multiple Originals

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

13. DISPUTE RESOLUTION

13.1 Choice of Law

Except to the extent of the applicability of the Federal Arbitration Act and related federal preemption requirements, this Agreement and all other matters concerning this Agreement and/or Franchisor (or any Franchisor Affiliate) and Developer, their relationship and/or respective rights and obligations, will be governed by, and construed and enforced in accordance with, the laws of the state of California, without giving effect to any conflict of laws; PROVIDED, i) the provisions of the California Franchise Relations Act and the California Franchise Investment Law and any other California statute, regulation or law regarding franchise offers and sales, business opportunities, seller assisted marketing plans and/or franchise relationships shall not apply unless jurisdictional, definitional and other requirements thereof are met independently of this Section; and ii) the provisions of Sections 9.3 and 9.4 shall be construed and enforced in accordance with the laws of the state where the claimed breach of such Section(s) occurs. The Federal Arbitration Act shall govern all matters subject to arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency.

13.2 Consent to Jurisdiction

Any action brought by either party, except those claims required to be submitted to arbitration, shall be brought in the appropriate state or federal court located in or serving Santa Clara County, California. The parties waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision. The parties hereby submit to service of process by registered mail, return receipt requested, or by any other manner provided by law. Claims for injunctive relief may be brought by Franchisor where Developer is located. This exclusive choice of jurisdiction and venue provision shall not restrict the ability of the parties to confirm or enforce judgments or arbitration awards in any appropriate jurisdiction.

13.3 Cumulative Rights and Remedies

No right or remedy conferred upon or reserved to Franchisor or Developer by this Development Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be in addition to every other right or remedy. Nothing contained herein shall bar Franchisor's right to obtain injunctive relief against threatened conduct that may cause it loss or damages, including obtaining restraining orders and preliminary and permanent injunctions.

13.4 Limitations of Claims

Any claim concerning the Development Rights or this Development Agreement or any related agreement shall be barred unless an action for that claim is commenced within one (1) year from the date on which Developer or Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim. Notwithstanding the above, Franchisor's claims attributable to underreporting, failure to pay monies owed and/or indemnification should be subject to applicable state or federal statutes of limitation.

13.5 Limitation of Damages

Developer and Franchisor each waive, to the fullest extent permitted by law, any right or claim for any punitive or exemplary damages against the other, and agree that if there is a dispute with the other, each shall be limited to the recovery of actual damages sustained by it including reasonable accounting and legal fees as provided in Section 12.5. Developer waives and disclaims any right to consequential damages in any action or claim against Franchisor concerning this Development Agreement or any related agreement. In any claim or action brought by Developer against Franchisor concerning this Development Agreement, Developer's contract damages shall not exceed and shall be limited to refund of Developer's Development Fee payments.

13.6 Waiver Of Jury Trial and Class Actions

DEVELOPER AND FRANCHISOR EACH IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, WHETHER AT LAW OR EQUITY, BROUGHT BY EITHER OF THEM, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW.

ANY ARBITRATION OR OTHER LEGAL PROCEEDING BETWEEN FRANCHISOR OR ANY FRANCHISOR AFFILIATE AND DEVELOPER AND ANY DEVELOPER AFFILIATE OR OWNER SHALL BE BROUGHT AS AN INDIVIDUAL CLAIM AND SHALL NOT BE ARBITRATED OR LITIGATED ON A CLASS-WIDE, CLASS ACTION OR CONSOLIDATED BASIS, TO THE FULLEST EXTENT PERMITTED BY LAW.

13.7 Arbitration

This Development Agreement evidences a transaction involving commerce and, therefore, the Federal Arbitration Act, Title 9 of the United States Code is applicable to the subject matter contained herein. Except for controversies or claims relating to the ownership of any and all intellectual property rights, including, but not limited to, Franchisor's Marks, copyrights or the unauthorized use or disclosure of Franchisor's Confidential Information and except for claims for injunctive relief, all disputes arising out of or relating to this Development Agreement or to any other agreements between the parties, or with regard to interpretation, formation or breach of this or any other agreement between the parties, shall be settled by binding arbitration conducted in Santa Clara County, California, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. The proceedings will be held by a single arbitrator agreed upon by the parties or otherwise appointed by the Circuit Court for the State of California and located in Santa Clara County, California. The decision of the arbitrator shall be final and binding upon the parties. Judgment upon the award rendered by the arbitrator may be entered in any court having personal and subject matter jurisdiction.

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

EXHIBIT C TO THE
AREA DEVELOPMENT AGREEMENT

HOLDERS OF LEGAL OR BENEFICIAL INTEREST
IN DEVELOPER; OFFICERS, DIRECTORS, MANAGERS AND TRUSTEES

Holders of Legal or Beneficial Interest:

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

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

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

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

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

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

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

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

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

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

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

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

Officers and Directors:

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

Telephone No.: _____
E-mail address: _____

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

Telephone No.: _____
E-mail address: _____

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

Telephone No.: _____
E-mail address: _____

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

Telephone No.: _____
E-mail address: _____

EXHIBIT D TO THE
AREA DEVELOPMENT AGREEMENT

MULTI-STATE ADDENDA TO THE AREA DEVELOPMENT AGREEMENT

**ADDENDUM TO THE LEE'S SANDWICHES INTERNATIONAL, INC.
AREA DEVELOPMENT AGREEMENT**

FOR THE STATE OF CALIFORNIA

This is the California Addendum to the Lee's Sandwiches® Area Development Agreement (the "Agreement") with an effective date of _____ by and between Lee's Sandwiches International, Inc. ("Franchisor"), a California corporation, and _____ ("Developer"), a California Area Developer. **The terms of this Addendum shall survive the termination or expiration of the Agreement.**

1. **To the extent that Sections 8 ("Default and Termination"), 9 ("Rights and Duties on Expiration or Termination") and 7 ("Transferability of Interest") and any other terms of the Agreement are inconsistent with the California Franchise Relations Act (CA. Bus. & Prof. Code §20020, et. seq.), the terms of the statute will control and the applicable Section shall be modified only to the extent required to comply with such law. The parties agree that in no event shall a reasonable opportunity to cure to the extent required under such statute be greater than seventy five (75) days.**

2. The following language is added to Section 7.2 of the Agreement:

(i) *Developer shall deliver to Franchisor by business courier or receipted U.S. mail, written notice of Developer's intent to Transfer, which notice shall include the proposed transferee(s)' name and address and shall be accompanied by a copy of all agreements and related documents pertaining to the proposed Transfer; and*

(j) *Developer shall deliver to Franchisor the transferee's completed application, which shall include all forms, financial disclosures, related documentation and such other information as then may be required to complete Franchisor's evaluation of prospective new Area Developers, and shall respond to any request from Franchisor for additional information within fifteen (15) days of receipt of such request.*

3. Section 8.1. is hereby deleted and the following language is substituted:

8.1 Termination with No Opportunity to Cure. *This Agreement shall, at Franchisor's option, terminate automatically upon Franchisor's delivery of notice of termination to Developer, without opportunity to cure, if Developer (or Developer's owner(s), as applicable) commits any of the breaches of this Agreement identified below in this Section 8., each of which is deemed by the parties to be a failure by Developer to substantially comply with the Area Development Agreement requirements. Developer (or a Developer owner):*

i. *abandons or fails to operate the Developer Business for more than five (5) consecutive calendar days during which Developer is required to operate, or for any shorter period after which it is not unreasonable for Franchisor to conclude that Developer does not intend to continue operating;*

ii. *experiences a seizure or foreclosure of the Developer Business or premises by a government official or by a creditor or lessor and a final judgment against Developer is unsatisfied for 30 days, or a levy of execution is made upon any property used in the Developer Business and not discharged within five (5) days;*

iii. *makes any material misrepresentation or omission in the application for the Area Development Agreement;*

iv. *is (or the Developer Business is) the subject of an order for relief in bankruptcy, judicially determined to be insolvent or admits Developer is unable to pay debts as they become due; or makes an assignment for the benefit of creditors;*

- v. is convicted of, or plead no contest to, a felony, or any other criminal misconduct relevant to the operation of Developer's Developer Business;
- vi. engages in any conduct which reflects materially and unfavorably upon Developer's Developer Business, the Lee's Sandwiches System or the goodwill associated with the Marks;
- vii. fails to comply with any law or regulation applicable to the operation of the Developer Business for a period of 10 days after notification of non-compliance, including without limitation, health, safety, building, and labor laws and regulations;
- viii. after curing a failure to comply with this Agreement, as provided in Section 8.2, below, engages in the same non-compliance, whether or not corrected after notice;
- ix. operates the Developer's Business such that Franchisor reasonably determines that the continued operation of the Franchised Business can result in imminent danger to public health and/or safety; or
- x. repeatedly fails to comply with one or more requirements of this Agreement or any Manual, whether or not corrected after notice.

4. Section 8.2. is hereby deleted and the following language is substituted:

8.2 This Agreement shall terminate, at Franchisor's sole option, without further action by Franchisor or notice to Developer, if Developer or any Developer Owner, as applicable:

- i) fails to pay any amounts due Franchisor or any Franchisor Affiliate or any trade creditor and does not correct any such failure within five (5) days after written notice is delivered thereof. The parties agree that if Developer or any Developer Owner commits a breach under this Section 8.2 i), each such breach shall be deemed to be a failure by Developer to substantially comply with the Area Development Agreement requirements; or
- ii) fails or refuses to comply with any provision of this Agreement not otherwise addressed under Sections 8.1 and 8.2 i), above, or with any provision of any other agreement with Franchisor or any Franchisor Affiliate, and does not correct the failure within sixty (60) days of written notice thereof or within any shorter period for cure as may be permitted by statute. The parties agree that such a breach of a material provision of this Agreement, or of any other agreement with Franchisor or any Franchisor Affiliate, or of any mandatory requirement prescribed in the Confidential Operations Manual shall be deemed to be a failure by Developer to substantially comply with the Area Development Agreement requirements.

5. The following language is added as Section 8.3:

8.3 If Franchisor publishes an announcement that it has determined that continued franchising in the state or in the standard metropolitan statistical area (as established by the United States Office of Management and Budget) within the state in which Developer's Development Area is located is not appropriate for reasons that relate to Franchisor's economic or other interests and that it is completely withdrawing from all franchise activity in such state/area (provided that Franchisor can continue to service existing Franchisees under outstanding agreements), then Franchisor will be considered to have made a general market area withdrawal (a "Market Withdrawal"). A Market Withdrawal shall be considered a lawful basis for termination of the Area Development Agreement and Franchisor shall have no liability to Developer therefore. Franchisor shall not prevent Developer from retaining control of the principal place of the Developer Business and any related Lee's Sandwiches Units in the event of a Market Withdrawal.

6. The following language is added as Section 8.4:

8.4 Franchisor shall have the right upon termination or non-renewal of this Agreement to purchase from Developer at the value of price paid by Developer, minus depreciation, Developer's inventory, supplies, equipment, fixtures and furnishings (the "Items") purchased or paid for under the terms of this Agreement or an agreement ancillary hereto by Developer to Franchisor or to its approved suppliers that are possessed or used by Lee's Sandwiches International, Inc.

Developer in the Developer Business at the time of termination or non-renewal. For the purposes of this provision and compliance under and construction of the California Franchise Relations Act (CFRA), the parties agree that such depreciation shall be calculated based on whichever of the two (2) methods prescribed results in a lower valuation of the Items: i) the Modified Accelerated Cost Recovery System (MACRS) method applied in accordance with the applicable standard U.S. Internal Revenue Service (IRS) schedules effective for the calendar year immediately preceding the calendar year in which the Agreement terminated or expired and was not renewed; or ii) the last filed depreciation schedules included by Developer in an IRS income tax return for the Developer Business filed in a calendar year preceding the calendar year in which the this Agreement terminated or expired and was not renewed. Developer shall provide Franchisor a true and complete copy of such income tax return and related schedules within five (5) business days of Franchisor's request. Developer shall further provide Franchisor clear title to and possession of any such Items. Franchisor can offset against the amounts owed to Developer any amounts owed by Developer to Franchisor.

In the event a court or arbitrator finds that Franchisor has terminated or failed to renew this Agreement in violation of the CFRA, the parties agree that the fair market value of the Developer Business and assets (the "FMV") for purposes of compliance with the CFRA shall be established in accordance with the following procedure: Franchisor and Developer shall mutually select an independent Certified Business Appraiser within thirty (30) days of such court/arbitrator finding. If unable to identify a mutually agreeable Certified Business Appraiser, Franchisor and Developer each shall select a person within forty-five (45) days of such court/arbitrator finding who is an independent Certified Business Appraiser (the "Designees") and such Designees promptly shall mutually agree to-a third independent Certified Business Appraiser whose determination of the FMV shall be final and binding on the parties. This provision shall survive the termination or expiration of this Agreement.

7. Section 7.5 of the Agreement is deleted and the following language is substituted:

Franchisor shall have a right of first refusal to accept the terms of any such proposed transfer. To enable Franchisor to exercise its right of first refusal, Developer shall provide any additional information Franchisor requests about the proposed transaction, including the purchase and sale agreement and related documents and terms, and shall comply with all applicable document and notice requirements relating to Developer's proposed transfer under applicable state law. Within sixty (60) days after Franchisor receives the notice described in 7.2, above, and all requested information, Franchisor shall notify Developer in writing by business courier or U.S. receipted mail of Franchisor's consent or withholding of consent to the proposed Transfer, or in accordance with this Section 7.5, acceptance for itself or its nominee of the transfer on the terms specified in Developer's notice. If Franchisor elects not to exercise its right of first refusal and consents to the proposed transfer, then Developer shall be authorized to complete the proposed transaction with the proposed transferee on the terms contained in the original notice to Franchisor and subject to satisfaction of the conditions contained in Section 7 of the Agreement. Any material change to any such transfer terms shall constitute a new proposal, which shall again require compliance with the procedures provided in Section 7 or as required under applicable state law. If Franchisor exercises its right of first refusal, then in addition i) Franchisor shall have the right to substitute cash for any form of payment proposed in the offer; ii) Franchisor's credit-worthiness shall not be deemed to be less than that of any proposed purchaser; iii) Franchisor shall have at least sixty (60) days after notifying Developer of its election to exercise its right of first refusal to prepare for closing; and iv) Franchisor shall be entitled to receive customary written representations and warranties from Developer. Developer shall take all action necessary to cause any pertinent agreements designated by Franchisor to be assigned to Franchisor."

8. The following language is added to Section 13.7 of the Agreement:

The arbitrator shall decide any questions relating in any way to the parties' agreement to arbitrate, including arbitrability, applicability, subject matter, timeliness, scope, remedies, and any alleged fraud in the inducement, or purportedly void or voidable provisions of the Agreement. The arbitrator can issue summary orders disposing of all or part of a claim and provide for temporary restraining orders, preliminary injunctions, injunctions, attachments, claim and delivery proceedings, temporary protective orders, receiverships and other equitable and/or interim/final relief. Each party consents to the enforcement of such orders, injunctions, and other relief by any court having jurisdiction. The subpoena powers of the arbitrator with respect to witnesses to appear at the arbitration proceeding shall not be subject to any geographical limitation. No award in arbitration will have any effect of preclusion or collateral estoppel in any other adjudication or arbitration. Arbitrators in any proceeding under this Section 13.7 will apply all applicable law, and a failure to apply the applicable law in accordance with Section 13.1 will be deemed an act in excess of authority and reviewable by the courts, and the parties expressly agree that any arbitration award can be reviewed and overturned by a court for legal error. If required by applicable law for any arbitration provision to be enforceable (for example, to preserve constitutionally or statutorily provided rights), the arbitrator can, as soon as possible, appropriately allocate between Developer and Franchisor the fees of the arbitrator(s) and/or his/her related organization, or require an advance of a portion of such fees subject to possible reimbursement, or otherwise address such issues so as to allow the arbitration to proceed and can adjust such allocations appropriately during the arbitration process for such purpose. Either party can in its discretion advance the other party's portion of the initial case filing fees paid to the American Arbitration Association, or successor organization, for an arbitration matter pursuant to this Agreement. In the event of a conflict between Commercial Arbitration Rules and this Agreement, this Agreement shall control.

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

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

FRANCHISOR:

Lee's Sandwiches International, Inc.
a California corporation

By: _____
Printed Name

Title: _____

Sign here if "Developer" is a natural person

DEVELOPER (Individual[s])

Signature

Printed Name

Signature

Printed Name

Sign here if “Developer” is a type of business entity

DEVELOPER (Corp., LLC or Partnership)

Legal Name of Developer Entity

a _____
Jurisdiction of Formation Corporation, LLC or Partnership

By: _____
Print Name

Signature

FOR THE STATE OF HAWAII

This Addendum to the Area Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of the Hawaii Franchise Investment Law, Hawaii Revised Statutes, Title 26, Chapter 482E *et seq.*, the Area Development Agreement for Lee's Sandwiches International, Inc. is amended as follows:

- The Hawaii Franchise Investment Law provides rights to you concerning non-renewal, termination and transfer of the Area Development Agreement. If the Area Development Agreement, and more specifically its Section 8, contains a provision that is inconsistent with Hawaii Franchise Investment Law, the Hawaii Franchise Investment Law will control.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Hawaii Franchise Investment Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Area Development Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

LEE'S SANDWICHES INTERNATIONAL, INC.:

Developer: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF ILLINOIS

This Addendum to the Area Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of the Illinois Franchise Disclosure Act of 1987, the following amends Lee's Sandwiches International, Inc. Area Development Agreement and supersedes all contrary provisions:

- Section 8 of the Area Development Agreement is amended to read:

The conditions under which the Area Development Agreement can be terminated and the rights upon non-renewal, as well as application by which Developer may bring claims, may be governed by Illinois law, 815 ILCS 705/19 and 705/20 of the Illinois Franchise Disclosure Act of 1987, Ill. Rev. Stat. Ch. 815 Par. 705/1-705-44.

- Section 13.4 of the Area Development Agreement is amended to provide that no action for liability under the Illinois Franchise Disclosure Act shall be maintained unless brought before the expiration of three (3) years after the act or transaction constituting the violation upon which it is based, the expiration of one (1) year after the Developer becomes aware of facts or circumstances reasonably indicating that he may have a claim for relief in respect to conduct governed by the Act, or ninety (90) days after delivery to the Developer of a written notice disclosing the violation, whichever shall first expire.
- For choice of law purposes, and for the interpretation and construction of the Area Development Agreement, the Illinois Franchise Disclosure Act, 815 ILCS 705 governs. Jurisdiction and venue for court litigation shall be in Illinois.

2. Any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act or any other law of this State is void. 815 ILCS 705/41 (West 2012).

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Illinois Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Area Development Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

LEE'S SANDWICHES INTERNATIONAL, INC.:

Developer: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF INDIANA

This Addendum to the Area Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of the Indiana Deceptive Franchise Practices Law, IC 23-2.2.7 and the Indiana Franchise Disclosure Law, IC 23-2-2-2.5, the Area Development Agreement for Lee's Sandwiches International, Inc. is amended as follows:

- Section 8 of the Area Development Agreement is amended to prohibit unlawful unilateral termination of a franchise unless there is a material violation of the Area Development Agreement and termination is not in bad faith.
- Section 9.4 of the Area Development Agreement is amended subject to Indiana Code 23-2-2.7-1(9) to provide that post-term non-competitor covenants shall have geographic limitation of the territory granted to Developer.
- Section 11.3 of the Area Development Agreement is amended to provide that Developer will not be required to indemnify Franchisor for any liability imposed upon Franchisor as a result of Developer's reliance upon or use of procedures or products, which were required by Franchisor, if such procedures or products were utilized by Developer in the manner required by Franchisor.
- Section 13.1 of the Area Development Agreement is amended to provide that in the event of a conflict between the laws of Indiana and California, the Indiana Franchise Disclosure Law and/or the Indiana Deceptive Franchise Practices Law will prevail.
- Section 13.2 of the Area Development Agreement is amended to provide that Developer may commence litigation in Indiana for any cause of action under Indiana law.
- Section 13.7 of the Area Development Agreement is amended to provide that arbitration between Franchisor and Developer, shall be conducted in Indiana or a site mutually agreed upon.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Indiana Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Area Development Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

LEE'S SANDWICHES INTERNATIONAL, INC.:

Developer: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF MARYLAND

This Addendum to the Area Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of the Maryland Franchise Registration and Disclosure Law, Md. Code Ann., Bus. Reg. §§14-201-14-233, the Area Development Agreement for Lee's Sandwiches International, Inc. is amended as follows:

- Section 13.1 of the Area Development Agreement is amended to provide that in the event of a conflict of laws, the Maryland Franchise Registration and Disclosure Law will prevail.
- Any litigation between Developer and Franchisor may be instituted in any court of competent jurisdiction, including a court in the State of Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.
- Section 13.4 of the Area Development Agreement is amended to provide that any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three (3) years after the grant of the franchise.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Maryland Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Area Development Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

LEE'S SANDWICHES INTERNATIONAL, INC.:

Developer: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF MINNESOTA

This Addendum to the Area Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the Minnesota Franchise Law, Minn. Stat., Chapter 80C, §80C.01 through 80C.22, and the Rules and Regulations promulgated pursuant thereto by the Minnesota Commission of Securities, Minnesota Rule 2860.4400, *et seq.*, the Area Development Agreement for Lee's Sandwiches International, Inc. is amended as follows:

- Section 8 of the Area Development Agreement is amended to state that with respect to franchises governed by the Minnesota Franchise Law, the Franchisor will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5, which require, except in certain specified cases, that a Developer be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice of non-renewal of the Area Development Agreement.
- Developer is not required to consent to liquidated damages because Minn. Rule 2860.44005 prohibits requiring a Developer to consent to liquidated damages.
- Section 13.4 of the Area Development Agreement is amended to state that any claim concerning the Franchised Business or this Development Agreement or any related agreement shall be barred unless an arbitration or an action for a claim that cannot be the subject of arbitration is commenced within three (3) years from the date on which Developer or Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim.
- Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibit Developer from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or Area Development Agreement can abrogate or reduce any of Developer's rights as provided for in Minnesota Statutes, Chapter 80C, or Developer's rights to any procedure, forum or remedies provided for by the laws of the jurisdiction.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Minnesota Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Area Development Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

LEE'S SANDWICHES INTERNATIONAL, INC.:

Developer: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF NEW YORK

This Addendum to the Area Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of New York's General Business Law, Article 33, §§680 through 695, the Area Development Agreement for Lee's Sandwiches International, Inc. is amended as follows:

- Section 7.1 of the Area Development Agreement is amended to provide that Franchisor will not transfer and assign its rights and obligations under the Area Development Agreement unless the transferee will be able to perform the Franchisor's obligations under the Area Development Agreement, in Franchisor's good faith judgment, so long as it remains subject to Article 33 of the General Business Law of the State of New York.
- No provision in the Area Development Agreement shall be construed as requiring Developer to waive any right conferred upon the Developer by the provisions of Article 33 of the General Business Law of the State of New York.
- Section 8 of the Area Development Agreement is amended to provide that the Developer may terminate the Area Development Agreement on any grounds available by law.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the New York Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Area Development Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

LEE'S SANDWICHES INTERNATIONAL, INC.:

Developer: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF NORTH DAKOTA

This Addendum to the Area Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of The North Dakota Securities Commission, the following provisions contained in the Area Development Agreement are amended to be consistent with North Dakota law, including the North Dakota Franchise Investment Law, North Dakota Century Code Addendum, Chapter 51-19, §51-19-01 *et seq.*:

- Covenants not to compete upon termination or expiration of the Area Development Agreement are generally enforceable in the State of North Dakota in limited instances as provided by law. If the Agreement contains a covenant not to compete that is inconsistent with North Dakota law, the covenant may not be enforceable.
- Section 13.1 of the Area Development Agreement is amended to state in the event of a conflict of laws, North Dakota Law shall control.
- Sections 13.2 and 13.7 are amended to state that a provision requiring litigation or arbitration to be conducted in a forum other than North Dakota is void with respect to claims under North Dakota law.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the North Dakota Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Area Development Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

LEE'S SANDWICHES INTERNATIONAL, INC.:

Developer:_____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF RHODE ISLAND

This Addendum to the Area Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. In recognition of the requirements of The Rhode Island Franchise Investment Act §19-28.1-14 the following provision contained in the Area Development Agreement is amended to be consistent with Rhode Island Law:

- Sections 13.1 and 13.2 of the Area Development Agreement are amended to provide that restricting jurisdiction or venue to a forum outside the state of Rhode Island or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Rhode Island Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Area Development Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

LEE'S SANDWICHES INTERNATIONAL, INC.:

Developer:_____

By: _____

By: _____

Title:_____

Title:_____

FOR THE COMMONWEALTH OF VIRGINIA

This Addendum to the Area Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____
_____ to amend and revise said Area Development Agreement as follows:

Section 13.4 of the Area Development Agreement is amended to include the following:

- Any claim concerning the Agreement or any agreement related Franchised Business will be barred unless an action for the claim is commenced within one (1) year from the date on which the Franchisee knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim. Any claim concerning the agreement or any related agreement will be barred unless the action for a claim is commenced within one (1) year from the date on which the Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim. Neither party shall be able to toll this one (1) year time period based upon information known only to that party.

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

LEE'S SANDWICHES INTERNATIONAL, INC.: Developer: _____

By: _____

By: _____

Title: _____

Title: _____

FOR THE STATE OF WASHINGTON

This Addendum to the Area Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____.

1. The Area Development Agreement for Lee's Sandwiches International, Inc. is amended as follows:

- RCW 19.100.180 which 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.
- In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site shall 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. 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.
- In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.
- A release or waiver of rights executed by a Franchisee may 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.
- Transfer fees are collectable to the extent that they reflect the Franchisor's reasonable estimated or actual costs in effecting a transfer.
- 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.
- 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.

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

LEE'S SANDWICHES INTERNATIONAL, INC.:

Developer:_____

By: _____

By: _____

Title:_____

Title:_____

FOR THE STATE OF WISCONSIN

This Addendum to the Area Agreement is agreed to this ____ day of _____, 20____, is by and between Lee's Sandwiches International, Inc. and _____, and amends and revises the Area Development Agreement as follows:

1. The Wisconsin Fair Dealership Law Title XIV-A Ch. 135, Sec. 135.01-135.07 shall supersede any conflicting terms of the Area Development Agreement.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Wisconsin Law applicable to the provisions are met independently of this Addendum. To the extent this Addendum shall be deemed to be inconsistent with any terms or conditions of said Area Development Agreement or exhibits or attachments thereto, the terms of this Addendum shall govern.

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

LEE'S SANDWICHES INTERNATIONAL, INC.:

Developer: _____

By: _____

By: _____

Title: _____

Title: _____

LEE'S SANDWICHES INTERNATIONAL, INC.

FINANCIAL STATEMENTS

EXHIBIT F TO THE DISCLOSURE DOCUMENT



LEE'S SANDWICHES INTERNATIONAL, INC.

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2022
AND
DECEMBER 31, 2021

CHU and WATERS, LLP
CERTIFIED PUBLIC ACCOUNTANTS

595 MARKET STREET, SUITE 2350
SAN FRANCISCO, CA 94105
TELEPHONE: (415) 781-9900
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MEMBERS OF:
Alliott
GROUP
A WORLDWIDE ALLIANCE OF
INDEPENDENT ACCOUNTING,
LAW AND CONSULTING FIRMS

INDEPENDENT AUDITORS' REPORT

To the Shareholder
and Board of Directors of
Lee's Sandwiches International, Inc.
San Jose, California

Opinion

We have audited the accompanying financial statements of Lee's Sandwiches International, Inc. (a California corporation), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income and retained earnings, 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 Lee's Sandwiches International, Inc. as of December 31, 2022 and 2021, 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 Lee's Sandwiches International, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Lee's Sandwiches International, Inc.'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 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 Lee's Sandwiches International, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lee's Sandwiches International, Inc.'s ability to continue as a going concern for a reasonable period of time.

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


CHU and WATERS, LLP
Certified Public Accountants

March 15, 2023

LEE'S SANDWICHES INTERNATIONAL, INC.

BALANCE SHEETS

	December 31,	
	2022	2021
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 4,435,341	\$ 2,665,105
Accounts receivable, net	326,376	320,803
Receivable from affiliate	-	501,642
	<u>4,761,717</u>	<u>3,487,550</u>
Total current assets		
	<u>4,761,717</u>	<u>3,487,550</u>
OTHER ASSET:		
Operating lease right-of-use asset	497,679	-
	<u>497,679</u>	<u>-</u>
	<u>\$ 5,259,396</u>	<u>\$ 3,487,550</u>
<u>LIABILITIES AND SHAREHOLDER'S EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 7,134	\$ 9,181
Accrued expenses and other	24,699	28,284
Contract liabilities	170,000	318,000
Payable to other	39,274	39,274
Operating lease liability	132,902	-
Payable to affiliate	-	139,908
	<u>374,009</u>	<u>534,647</u>
Total current liabilities		
	<u>374,009</u>	<u>534,647</u>
LONG-TERM LIABILITIES:		
Contract liabilities	247,000	247,000
Operating lease liability	364,777	-
	<u>611,777</u>	<u>-</u>
Total long-term liabilities		
	<u>611,777</u>	<u>247,000</u>
SHAREHOLDER'S EQUITY:		
Common stock, no par value, 10,000,000 shares		
authorized, 250,000 shares issued and outstanding	10,000	10,000
Additional paid-in capital	54,000	54,000
Retained earnings	4,209,610	2,641,903
	<u>4,273,610</u>	<u>2,705,903</u>
Total shareholder's equity		
	<u>4,273,610</u>	<u>2,705,903</u>
	<u>\$ 5,259,396</u>	<u>\$ 3,487,550</u>

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

LEE'S SANDWICHES INTERNATIONAL, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

	Years Ended December 31,	
	2022	2021
REVENUES:		
Royalty fees	\$ 2,280,656	\$ 2,043,965
Franchise fees	423,000	130,000
Total revenues	2,703,656	2,173,965
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,137,546	1,118,328
Income from operations	1,566,110	1,055,637
OTHER INCOME (EXPENSE):		
Interest income, net	1,597	1,624
Recovery of impairment	-	150,000
Paycheck Protection Program loan forgiveness	-	120,800
Other income	-	1,000
Total other income	1,597	273,424
NET INCOME	1,567,707	1,329,061
RETAINED EARNINGS, beginning of year	2,641,903	1,312,842
RETAINED EARNINGS, end of year	\$ 4,209,610	\$ 2,641,903

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

LEE'S SANDWICHES INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2022	2021
INCREASE (DECREASE) IN CASH:		
Cash flows from operating activities:		
Cash received from customers	\$ 2,550,083	\$ 2,307,355
Interest income received	1,597	336
Cash paid to suppliers	(1,143,178)	(1,024,872)
Net cash provided by operating activities	1,408,502	1,282,819
Cash flows from investing activities:		
Proceeds from receivable from affiliate	501,642	-
Proceeds from note receivable from affiliate	-	188,537
Net cash provided by investing activities	501,642	188,537
Cash flows from financing activities:		
(Payment) proceeds from payable to affiliate	(139,908)	31,463
Proceeds from payable to other	-	39,274
Net cash (used) provided by financing activities	(139,908)	70,737
NET INCREASE IN CASH	1,770,236	1,542,093
CASH, beginning of year	2,665,105	1,123,012
CASH, end of year	\$ 4,435,341	\$ 2,665,105

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

LEE'S SANDWICHES INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS
(Continued)

	Years Ended December 31,	
	2022	2021
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$ 1,567,707	\$ 1,329,061
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) in accounts receivable, net	(5,573)	(15,610)
(Increase) in operating lease right-of-use asset	(497,679)	-
(Decrease) increase in accounts payable	(2,047)	3,588
(Decrease) in accrued expenses and other	(3,585)	(16,935)
(Decrease) increase in contract liabilities	(148,000)	148,000
Increase in operating lease liability	497,679	-
Recovery of impairment	-	(150,000)
Income from Paycheck Protection Program loan forgiveness	-	(120,800)
Non-cash expense	-	106,803
(Increase) in note receivable from affiliate, net of allowance for impairment	-	(1,288)
Total adjustments	(159,205)	(46,242)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,408,502	\$ 1,282,819

NON-CASH INVESTING AND FINANCING ACTIVITIES:

During the year ended December 31, 2021, The Company recognized \$120,800 of income from the Paycheck Protection Program loan payable forgiven by the U.S. Small Business Administration.

During the year ended December 31, 2021, The Company recognized \$108,445 of legal expense with a corresponding increase in payable to affiliate.

During the year ended December 31, 2021, The Company recognized \$1,642 of receivable from affiliate for reimbursable legal expense.

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

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Activity

Lee's Sandwiches International, Inc. (The Company) was incorporated under the laws of the State of California on June 11, 2002. The Company is the franchisor of Lee's Sandwiches. The franchisees of The Company provide food and beverages for consumers. The types of foods served are primarily sandwiches, cooked to order food, beverages, packaged snacks and baked goods. The Company maintains its corporate office in San Jose, California.

On January 1, 2016, the shareholders of The Company exchanged all the outstanding common stock of The Company for common stock of LCJJ Holdings, Inc. (The Parent). Accordingly, effective January 1, 2016, The Company is a wholly-owned subsidiary of LCJJ Holdings, Inc.

As of December 31, 2022, The Company has registered its franchise with the States of California, Florida, Hawaii, Illinois, Maryland, Michigan, Minnesota, New York, Texas, Utah, Virginia, and Washington. As of December 31, 2022, The Company has franchisees in the States of Arizona, Nevada, Oklahoma and Oregon, where registration is not required.

Method of Accounting

The Company has prepared the accompanying financial statements using the accrual method of accounting in accordance with the basis of accounting principles generally accepted in the United States of America (GAAP).

Franchise Operations, Revenue Recognition, and Contract Liabilities

The Company executes a franchise agreement for each unit, which sets forth the terms of The Company's arrangement with the franchisee. The franchise agreement typically requires the franchisee to pay a one-time franchise fee and royalty fees based upon a percentage of sales. The initial term of the franchise agreement ranges from five to ten years. The terms of the franchise agreement also provide franchisees the right to renew for a certain number of five-year periods at no additional renewal fee.

The Company recognizes revenues in accordance with the Accounting Standards Codification (ASC) No. 606, Revenue from Contracts with Customers. ASC No. 606 includes a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company derives its revenues from royalty fees and initial franchise fees in accordance to the franchise agreements. Revenues from services are recognized when performance obligations under the terms of the contract with customers are satisfied. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account for revenue recognition. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Franchise Operations, Revenue Recognition, and Contract Liabilities (Continued)

Royalty fees represent the substantial majority of the consideration The Company receives under the franchise agreements. Royalty fees are recognized based on a 6.9% of franchisees' sales at the time the underlying sales occur. Payments for royalty fees are generally due within seven days of the prior week end date.

The franchise agreements also require a one-time, less significant initial franchise fee paid upon signing a franchise agreement (unless otherwise directed by a state regulator). Transfer fees are required in the event the franchise is subsequently transferred to another franchisee. The franchise fees are generally due upon entering the franchise agreements.

Direct costs related to franchise sales are deferred until the related franchise fees are recognized. As of December 31, 2022 and 2021, deferred direct costs related to franchise sales have not been reflected on the balance sheets as they are immaterial.

Indirect costs related to franchise operations are charged to operating expenses as incurred.

The contract liabilities are comprised of deferred initial franchise fees. During the years ended December 31, 2022 and 2021, The Company recognizes the changes in contract liabilities as follows:

	December 31,	
	2022	2021
Balance at the beginning of the year	\$ 565,000	\$ 417,000
Revenue recognized that was included in the franchise fees received at the beginning of the year	(208,000)	(50,000)
Increase in deferred franchise revenue associated with franchise agreements that became effective, net of amounts recognized as revenue during the current year	60,000	198,000
Balance at the end of the year	<u>\$ 417,000</u>	<u>\$ 565,000</u>

For the years ended December 31, 2022 and 2021, The Company entered into eight and seven, respectively, franchise agreements, some as a result of transfers. As of December 31, 2022 and 2021, forty-five and forty, respectively, franchised locations are in operation.

Cash

For the purpose of the statements of cash flows, The Company considers all demand deposit accounts and all interest bearing time deposit accounts due on demand to be cash.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable are receivables, which arise in the ordinary course of business, and are recorded at invoice prices. Accounts receivable are stated at the outstanding amount of invoices for royalty fees and franchise fees, net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on a review of outstanding accounts receivable, historical bad debt experience and existing economic conditions, including the impact of the COVID-19 pandemic. The Company utilizes contractual terms to determine the delinquency status of accounts receivable. Delinquent accounts receivable are written off to expense based on an individual credit evaluation. As of December 31, 2022 and 2021, The Company has an allowance for doubtful accounts of \$47,000.

Receivable from Affiliate and Note Receivable from Affiliate

Receivable from affiliate and note receivable from affiliate are recorded at cost, less any allowance for impairment. Interest income on the note receivable is recognized over the term of the note and is computed using the compound-interest method on the outstanding balance. A note receivable is placed on nonaccrual-of-interest status, when management believes that the collection of interest is doubtful. The Company, considering the borrowers' credit conditions, including their current financial situation, historical collection experience and other events regarding the borrowers' abilities to repay their obligations, determines the receivable and note receivable to be impaired when it is probable that The Company will be unable to collect all amounts due according to the contractual terms of the receivable agreements. The Company utilizes contractual terms to determine the delinquency status of the receivable and note receivable. Based on an assessment of credit conditions, The Company determines if an impaired receivable, or a portion thereof, is charged off to expense, or an allowance for impairment is required. During the years ended December 31, 2022 and 2021, the receivable from affiliate and the note receivable from affiliate, respectively, were repaid in full.

State Franchise Tax and Other State Taxes

Effective January 1, 2016, The Company is a qualified S Corporation subsidiary of The Parent and does not file separate income tax returns. As a result of The Parent's election to be treated as an S Corporation and the election by The Parent to have its subsidiaries, including The Company, become qualified S Corporation subsidiaries, The Parent and its qualified S Corporation subsidiaries are only subject to California State franchise tax at a rate of 1.5% and other State taxes. Federal and State individual income taxes are paid by the shareholders of The Parent based on taxable income reported by The Parent and its qualified S Corporation subsidiaries. The Parent is responsible for The Company's State tax expense. Deferred State franchise tax and other State taxes have not been reflected on the financial statements as they are insignificant.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Franchise Tax and Other State Taxes (Continued)

The Company accounts for income taxes and uncertainty in income taxes in accordance with the provisions of FASB ASC No. 740, "Income Taxes." These provisions clarify the accounting for uncertainty in income taxes recognized in an entity's financial statements. Under the standard, the tax benefit from an uncertain tax position is to be recognized as a reduction of income tax expense when it is more likely than not, based on the technical merits of the position, that the position will be sustained on examination by the tax authorities including resolution of any related appeals or litigation processes. Additionally, the amount of the tax benefit to be recognized is the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the taxing authorities. The standard also provides guidance for derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of December 31, 2022 and 2021, The Company has no uncertain tax position that requires either recognition or disclosure in the financial statements. For the years ended December 31, 2022 and 2021, The Company has no interest and penalties related to income taxes.

With few exceptions, The Company's open periods for Federal and State tax examinations are from December 31, 2019 through 2022 and December 31, 2018 through 2022, respectively.

Variable Interest Entities

An entity is referred to as a variable interest entity (VIE) if it meets at least one of the following criteria: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support of other parties; or (2) as a group, the holders of the equity investment at risk lack (a) the power to direct the activities of an entity that most significantly impact the entity's economic performance; (b) the obligation to absorb the expected losses; or (c) the right to receive the expected residual returns; or (3) have disproportional voting rights and the entity's activities are conducted on behalf of the investor that has disproportionately few voting rights.

The Company consolidates a VIE when The Company has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, including potential impacts arising from the COVID-19 pandemic and related government actions, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases and Recently Adopted Accounting Pronouncement

On January 1, 2022, The Company adopted Accounting Standards Update (ASU) No. 2016-02, “Leases,” and all subsequent amendments to the ASU (collectively, “ASC No. 842”), which replaces nearly all accounting policies related to leases prior to the adoption of ASC No. 842. ASC No. 842 requires a lessee to recognize a right-of-use (ROU) asset and a lease liability, measured at the present value of the remaining minimum lease payments, on the balance sheet for both finance and operating leases with terms of more than twelve months. For operating leases, the standard requires a lessee to recognize a single lease cost to be allocated over the lease term on a straight-line basis and to classify all cash payments within operating activities in the statement of cash flows. For finance leases, the standard requires a lessee to recognize interest on the lease liability separately from amortization of the ROU asset in the comprehensive income and to classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. The standard also requires enhanced disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted this guidance using the modified retrospective approach. Under this approach, prior financial statements are not restated and a cumulative effect adjustment is recognized upon adoption. At the date of adoption, The Company did not recognize ROU assets and liabilities as The Company only had one month-to-month lease in effect. Accordingly, no cumulative effect adjustment to retained earnings as of January 1, 2022 was necessary. ASC No. 842 did not have a significant effect on the results of operations or cash flows for the year ended December 31, 2022. The Company elected the package of practical expedients which allows The Company not to reassess the lease classification of operating leases, contracts and initial direct costs for any expired or existing leases. As most of the leases do not provide an implicit rate, The Company elected the practical expedient in accordance with ASU No. 2021-09, “Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities,” which permits private companies to make an accounting policy election to use a risk-free discount rate by class of underlying asset.

Recent Accounting Pronouncement

In June 2016, the FASB issued ASU No. 2016-13 “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” which requires the measurement and recognition of expected credit losses for financial assets held at amortized costs. ASU No. 2016-13 replaces the existing probable or incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates which affects loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU No. 2016-13 is effective for non-public entities for fiscal years beginning after December 15, 2022, with early adoption permitted. The Company is evaluating the impact the pronouncement may have on the financial statements.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Management evaluated subsequent events through March 15, 2023, the date on which the financial statements are available to be issued.

NOTE B – RECEIVABLE FROM AFFILIATE

The Company had an interest free receivable from an affiliate corporation that is a wholly-owned subsidiary of The Parent. As of December 31, 2021, the outstanding balance of the receivable was \$501,642. During the year ended December 31, 2022, this receivable was repaid in full.

NOTE C – NOTE RECEIVABLE FROM AFFILIATE

The Company had an unsecured \$150,000 note receivable from an affiliate corporation which was repaid in full during the year ended December 31, 2021. The minority shareholders of the affiliated corporation are also the majority shareholders of The Parent. The interest rate was at 2%. For the year ended December 31, 2021, interest income related to note receivable from affiliate was \$1,288.

NOTE D – LEASING ACTIVITIES

The Company leases its office facility in San Jose, California from the majority shareholders of The Parent under an operating lease agreement expiring May 31, 2027. For each of the years ended December 31, 2022 and 2021, total rent expense for the related party lease is \$120,000.

The following summarizes the line items in the balance sheets which include amounts for leases as of December 31, 2022:

Operating lease right-of-use-asset	<u><u>\$ 497,679</u></u>
Current operating lease liability	<u>\$ 132,902</u>
Long-term operating lease liability	<u>364,777</u>
Total operating lease liability	<u><u>\$ 497,679</u></u>

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE D – LEASING ACTIVITIES (Continued)

The following summarizes the weighted average remaining lease term and discount rate as of December 31, 2022:

Weighted average remaining lease term:	
Operating lease	4.4 years
Weighted average discount rate:	
Operating lease	2.94%

The maturities of lease liability as of December 31, 2022 are as follows:

<u>Years Ending December 31,</u>	
2023	\$ 120,000
2024	120,000
2025	120,000
2026	120,000
2027	<u>50,000</u>
Total operating lease payments	530,000
Less: interest	<u>(32,321)</u>
Present value of operating lease liability	<u><u>\$ 497,679</u></u>

The following summarizes the line item in the statements of income which include the component of lease expense for the year ended December 31, 2022:

Operating lease expense included in selling, general and administrative expenses	<u><u>\$ 120,000</u></u>
--	--------------------------

The following summarizes cash flow information related to the lease for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liability:	
Operating cash flows from operating lease	<u><u>\$ 70,000</u></u>
Lease assets obtained in exchange for lease obligations:	
Operating lease	<u><u>\$ 558,716</u></u>

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE E – PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

In April 2020, The Company received loan proceeds in the amount of \$120,800 under the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). The PPP, established as part of the CARES Act, provides for loans to qualifying business for amounts up to 2.5 times the average monthly payroll costs of the qualifying business.

The PPP loan principal and accrued interest are forgivable provided The Company meets certain requirements and utilizes the loan proceeds for eligible costs incurred and paid during the 24-week period after the loan is funded. Eligible costs under the PPP are: certain payroll costs, mortgage interest, rent and utilities. In order for all eligible costs to be forgiven, The Company must use at least 60% of the loan proceeds for payroll costs and also maintain specified employee headcount and compensation levels during the specified 24-week period after the loan is funded. The amount of the loan forgiveness may be reduced if The Company utilizes the loan proceeds for other than eligible costs or does not meet the aforementioned criteria during the 24-week period after the loan is funded.

During the year ended December 31, 2021, the PPP loan was forgiven by the SBA.

NOTE F – OTHER RELATED PARTY TRANSACTIONS AND SUBSEQUENT EVENT

Payable to Other and Subsequent Event

As of December 31, 2022 and 2021, The Company has an interest free payable of \$39,274 to individual who is the majority shareholder of The Parent. The payable has been repaid in full as of the date of this report.

Royalty Fees

As of December 31, 2022 and 2021, accounts receivable include royalty fees receivable of \$12,310 and \$6,436, respectively, owed to The Company by an affiliated corporation, whose minority shareholders are also the majority shareholders of The Parent. For the years ended December 31, 2022 and 2021, total royalty fees earned from this affiliated corporation are \$303,458 and \$300,077, respectively.

As of December 31, 2022 and 2021, accounts receivable include royalty fees receivable of \$9,089 and \$4,849, respectively, owed to The Company by an affiliated corporation, whose minority shareholder is also the minority shareholder of The Parent. For the years ended December 31, 2022 and 2021, total royalty fees earned from this affiliated corporation are \$55,607 and \$57,044, respectively.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE F – OTHER RELATED PARTY TRANSACTIONS AND SUBSEQUENT EVENT (Continued)

Operating Expenses

As of December 31, 2022 and 2021, accounts payable include \$7,134 and \$9,181, respectively, of training costs, relating to training and operations assistance to franchisees, due to an affiliated corporation, whose minority shareholders are also the majority shareholders of The Parent. For the years ended December 31, 2022 and 2021, total training costs charged by this affiliated corporation are \$89,417 and \$36,208, respectively.

For the year ended December 31, 2021, the legal expenses include \$108,445, reimbursable to an affiliated corporation, whose minority shareholders are also the majority shareholders of The Parent. The \$108,445 of legal expense reimbursement is included in the \$139,908 payable to affiliate as of December 31, 2021.

For each of the years ended December 31, 2022 and 2021, the accounting expenses include \$18,000 reimbursable to an affiliated corporation that is a wholly-owned subsidiary of The Parent. As of December 31, 2022 and 2021, accrued expense includes \$0 and \$4,500, respectively, of accounting expense to the affiliated corporation.

NOTE G – CONCENTRATIONS

Major Customers

For both of the years ended December 31, 2022 and 2021, The Company has one related major customer comprising over 10% of total revenues. This related major customer is an affiliated corporation whose minority shareholders are also the majority shareholders of The Parent. For the years ended December 31, 2022 and 2021, revenues from the related major customer are approximately 11% and 14%, respectively, of total revenues. As of December 31, 2022 and 2021, the related major customer maintains outstanding accounts receivable of approximately 4% and 2%, respectively, of total outstanding accounts receivable.

Credit Risk

Financial instruments that potentially subject The Company to credit risk include cash on deposit with financial institutions amounting to \$4,472,306 and \$2,711,615 at December 31, 2022 and 2021, respectively, of which \$4,222,306 and \$2,461,615, respectively, is in excess of applicable U.S. Federal Deposit Insurance Corporation coverage. The difference between the carrying amount of cash and the bank balance is primarily due to outstanding checks and deposits in transit.

The Company has a concentration of credit risk with respect to accounts receivable. In the ordinary course of business, The Company grants credit to customers, who are located in the United States, and requires no collateral. The Company manages credit risk by performing ongoing credit evaluations and monitoring collection activity with respect to its customers.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE H – COMMITMENTS, CONTINGENCIES, RELATED PARTY TRANSACTIONS AND SUBSEQUENT EVENT

Borrowing Agreements with a Bank and Subsequent Event

The Company has a joint borrowing agreement with a corporation and a limited liability company which are wholly-owned subsidiaries of The Parent and two corporations whose minority shareholders are also the majority shareholders of The Parent for a working capital line of credit with a bank which allows for borrowings up to \$2,000,000 through November 21, 2025. Interest is at 1% below the prime rate. The borrowing agreement is secured by substantially all assets of The Company and the joint borrowers and a deed of trust on the real property owned by the majority shareholders of The Parent and leased to The Company. The borrowing agreement is also guaranteed by the majority shareholders of The Parent. As of December 31, 2022, there are no outstanding balance on this borrowing agreement.

The Company has a joint borrowing agreement with a corporation and a limited liability company which are wholly-owned subsidiaries of The Parent and two corporations whose minority shareholders are also the majority shareholders of The Parent for a working capital line of credit with a bank. The line of credit allows for borrowings up to \$3,500,000 with interest at 0.1% below the prime rate through October 16, 2022, at which time the line of credit converted to a joint note payable to the bank. The note requires 60 monthly principal and interest payments of \$32,677, beginning January 15, 2023, with interest rate at 5.5%. The interest rate will be adjusted to 0.75% below the prime rate, subject to a floor of 5.5%, beginning January 15, 2028 through December 15, 2032, at which time all outstanding principal and accrued interest will be due. The borrowing agreement is secured by substantially all assets of The Company and the joint borrowers and is also guaranteed by the majority shareholders of The Parent. As of December 31, 2022 and 2021, the outstanding balance on this borrowing agreement is \$3,000,000 and \$2,977,000, respectively, and is reflected as a liability on books and records of the wholly-owned corporation of The Parent.

The Company, a corporation and a limited liability company which are wholly-owned subsidiaries of The Parent and two corporations whose minority shareholders are also the majority shareholders of The Parent have a joint note payable to a bank. The note requires 84 monthly principal and interest payments of \$35,801, beginning January 5, 2021, with interest rate at 3.5%. The interest rate will be adjusted to the bank's prime rate, subject to a floor of 3.5%, beginning January 5, 2028 through May 5, 2028, at which time all outstanding principal and accrued interest will be due. The borrowing agreement is secured by substantially all assets of The Company and the joint borrowers and deeds of trust on two real properties owned by the majority shareholders of The Parent. The note agreement is also guaranteed by the majority shareholders of The Parent. As of December 31, 2022 and 2021, the outstanding balance on this borrowing agreement is \$2,114,095 and \$2,461,966, respectively, and is reflected as a liability on books and records of the wholly-owned corporation of The Parent.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE H – COMMITMENTS, CONTINGENCIES, RELATED PARTY TRANSACTIONS AND SUBSEQUENT EVENT (Continued)

Borrowing Agreements with a Bank and Subsequent Event (Continued)

The Company, a corporation and a limited liability company which are wholly-owned subsidiaries of The Parent and two corporations whose minority shareholders are also the majority shareholders of The Parent have a joint note payable to a bank with interest at the prime rate. The note is payable in fixed monthly payments of \$16,909, principal and interest, through the note's maturity on December 23, 2022. The borrowing agreement is secured by substantially all assets of The Company and the joint borrowers and is also guaranteed by the majority shareholders of The Parent. As of December 31, 2022 and 2021, the outstanding balance on this borrowing agreement is \$16,388 and \$192,671, respectively, and is reflected as a liability on books and records of the wholly-owned corporation of The Parent.

The Company has a joint borrowing agreement with a corporation and a limited liability company which are wholly-owned subsidiaries of The Parent and two corporations whose minority shareholders are also the majority shareholders of The Parent for a capital equipment line of credit with a bank. The line of credit allows for borrowings up to \$1,574,248 through February 26, 2021, at which time the line of credit converted to a term loan. The note requires 120 monthly principal and interest payments, with interest rate at 0.75% below the prime rate, subject to a floor of 3.5%, beginning February 26, 2021 through August 26, 2030, at which time all outstanding principal and accrued interest will be due. The borrowing agreement is secured by substantially all assets of The Company and the joint borrowers and is also guaranteed by the majority shareholders of The Parent. The borrowing agreement is also guaranteed by the majority shareholders of The Parent. As of December 31, 2022 and 2021, the outstanding balance on this borrowing agreement is \$1,365,399 and \$1,512,708, respectively, and is reflected as a liability on books and records of the wholly-owned corporation of The Parent.

The borrowing agreements provide that The Company and the co-borrowers meet certain financial requirements on a combined basis. As of the date of this report, The Company and the co-borrowers have not completed their combined financial statements for the year ended December 31, 2022; accordingly, compliance with the financial requirements has not been determined. Non-compliance of the financial requirements may result in the bank demanding immediate repayment of all outstanding balances under the borrowing agreements, which may have a severe impact on The Company's operations, cash flows and financial position.

Litigation

In 2019, The Company and an affiliated corporation, whose minority shareholders are also the majority shareholders of The Parent, jointly filed a lawsuit against a former franchisee for the outstanding accounts receivable owed to them. The Company was seeking a reimbursement of \$255,430 from this lawsuit. During the year ended December 31, 2021, The Company received an award settlement from the arbitrator for this lawsuit. However, The Company did not recognize this settlement income on the statements of income for the years ended December 31, 2022 and 2021 due to uncertainty of collection. Any recoveries arising from this lawsuit will be recorded as income in the year received.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

**NOTE H – COMMITMENTS, CONTINGENCIES, RELATED PARTY TRANSACTIONS AND
SUBSEQUENT EVENT (Continued)**

Other

Certain States require The Company to renew its franchise registration annually. As a condition to registration, The Company is required to demonstrate that adequate financial arrangements have been made to fulfill The Company's obligations to prospective franchisees under the franchise offering. If the States determine The Company has failed to demonstrate adequate financial arrangements, The Commissioner may require either the impound of franchisee fees and other funds paid by the franchisee, or the deferral of the payment of franchise fees owed by the franchisee, until The Company's obligations to the franchisee have been satisfied. As of December 31, 2022 and 2021, The Company is not subject to impound or deferral requirement imposed by the State of California or other States in which The Company has franchises in operation or under development.

NOTE I – COVID-19 PANDEMIC UPDATE AND SUBSEQUENT EVENT

During the years ended December 31, 2022 and 2021, The Company's operations were disrupted by the worldwide COVID-19 pandemic. The pandemic has resulted in significant sales volatility due to changing customer habits. Therefore, The Company expects continued uncertainty in its operations due to the duration and intensity of the COVID-19 pandemic; duration and extent of economic stimulus, volatility in employment trends, customer confidence, supply chain disruption, efficacy and availability of a vaccine and treatments for COVID-19. Consequently, while The Company expects this matter to continue impacting sales and operations, The Company cannot reasonably estimate the financial impact at this time due to the uncertainty of future developments.



LEE'S SANDWICHES INTERNATIONAL, INC.

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2021
AND

CHU and WATERS, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTING,
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INDEPENDENT AUDITORS' REPORT

To the Shareholder
and Board of Directors of
Lee's Sandwiches International, Inc.
San Jose, California

Opinion

We have audited the accompanying financial statements of Lee's Sandwiches International, Inc. (a California corporation), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income and retained earnings, 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 Lee's Sandwiches International, Inc. 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 Lee's Sandwiches International, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Lee's Sandwiches International, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

To the Shareholder
and Board of Directors of
Lee's Sandwiches International, Inc.
San Jose, California
Page 2

Auditors' Responsibility 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 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 Lee's Sandwiches International, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lee's Sandwiches International, Inc.'s ability to continue as a going concern for a reasonable period of time.

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


CHU and WATERS, LLP
Certified Public Accountants

March 10, 2022

LEE'S SANDWICHES INTERNATIONAL, INC.

BALANCE SHEETS

	December 31,	
	2021	2020 (As Adjusted)
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 2,665,105	\$ 1,123,012
Accounts receivable, net	320,803	305,193
Receivable from affiliate	501,642	500,000
Note receivable from affiliate, net of allowance for impairment	-	37,249
	<u>\$ 3,487,550</u>	<u>\$ 1,965,454</u>
<u>LIABILITIES AND SHAREHOLDER'S EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 9,181	\$ 5,593
Accrued expenses and other	28,284	45,219
Contract liabilities	318,000	50,000
Payable to affiliate	139,908	-
Payable to other	39,274	-
Total current liabilities	<u>534,647</u>	<u>100,812</u>
LONG-TERM LIABILITIES:		
Contract liabilities	247,000	367,000
Paycheck Protection Program loan payable	-	120,800
Total long-term liabilities	<u>247,000</u>	<u>487,800</u>
SHAREHOLDER'S EQUITY:		
Common stock, no par value, 10,000,000 shares authorized, 250,000 shares issued and outstanding	10,000	10,000
Additional paid-in capital	54,000	54,000
Retained earnings	2,641,903	1,312,842
Total shareholder's equity	<u>2,705,903</u>	<u>1,376,842</u>
	<u>\$ 3,487,550</u>	<u>\$ 1,965,454</u>

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

LEE'S SANDWICHES INTERNATIONAL, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS

	Years Ended December 31,	
	2021	2020 (As Adjusted)
REVENUES:		
Royalty fees	\$ 2,043,965	\$ 1,615,321
Franchise fees	130,000	110,001
Total revenues	2,173,965	1,725,322
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,118,328	973,829
Income from operations	1,055,637	751,493
OTHER INCOME (EXPENSE):		
Recovery of impairment	150,000	246,917
Paycheck Protection Program loan forgiveness	120,800	-
Interest income, net	1,624	6,976
Other income	1,000	-
Total other income	273,424	253,893
NET INCOME	1,329,061	1,005,386
RETAINED EARNINGS, beginning of year	1,312,842	807,456
DIVIDENDS	-	(500,000)
RETAINED EARNINGS, end of year	\$ 2,641,903	\$ 1,312,842

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

LEE'S SANDWICHES INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2021	2020
INCREASE (DECREASE) IN CASH:		
Cash flows from operating activities:		
Cash received from customers	\$ 2,307,355	\$ 1,762,139
Interest income received	336	365
Cash paid to suppliers	(1,024,872)	(974,615)
Net cash provided by operating activities	1,282,819	787,889
Cash flows from investing activities:		
Proceeds from note receivable from affiliate	188,537	240,000
Payments for receivable from affiliate	-	(500,000)
Net cash provided (used) by investing activities	188,537	(260,000)
Cash flows from financing activities:		
Proceeds from payable to other	39,274	-
Proceeds from payable to affiliate	31,463	-
Proceeds from Paycheck Protection Program loan payable	-	120,800
Payments of dividends	-	(500,000)
Net cash provided (used) by financing activities	70,737	(379,200)
NET INCREASE IN CASH	1,542,093	148,689
CASH, beginning of year	1,123,012	974,323
CASH, end of year	\$ 2,665,105	\$ 1,123,012

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

LEE'S SANDWICHES INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

(Continued)

	Years Ended December 31,	
	2021	2020
		(As Adjusted)
RECONCILIATION OF NET INCOME		
TO NET CASH PROVIDED BY		
OPERATING ACTIVITIES:		
Net income	\$ 1,329,061	\$ 1,005,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Recovery of impairment	(150,000)	(246,917)
Income from Paycheck Protection Program loan forgiveness	(120,800)	-
Non-cash expense	106,803	44,175
(Increase) decrease in accounts receivable, net	(15,610)	26,817
(Increase) in note receivable from affiliate, net of allowance for impairment	(1,288)	(6,611)
Increase in accounts payable	3,588	3,612
(Decrease) in accrued expenses and other	(16,935)	(48,573)
Increase in contract liabilities	268,000	10,000
(Decrease) in long-term contract liabilities	(120,000)	-
Total adjustments	(46,242)	(217,497)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,282,819	\$ 787,889

NON-CASH INVESTING AND FINANCING ACTIVITIES:

During the year ended December 31, 2021, The Company recognized \$120,800 of income from the Paycheck Protection Program loan payable forgiven by the U.S. Small Business Administration.

During the year ended December 31, 2021, The Company recognized \$108,445 of legal expense with a corresponding increase in payable to affiliate.

During the year ended December 31, 2021, The Company recognized \$1,642 of receivable from affiliate for reimbursable legal expense.

During the year ended December 31, 2020, The Company recognized \$59,848 repayment of note receivable from affiliate by offsetting \$44,175 reimbursable legal expenses, due to the affiliate, and a corresponding reduction of \$15,673 accrued expense, payable to the affiliate.

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

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Activity

Lee's Sandwiches International, Inc. (The Company) was incorporated under the laws of the State of California on June 11, 2002. The Company is the franchisor of Lee's Sandwiches. The franchisees of The Company provide food and beverages for consumers. The types of foods served are primarily sandwiches, cooked to order food, beverages, packaged snacks and baked goods. The Company maintains its corporate office in San Jose, California.

On January 1, 2016, the shareholders of The Company exchanged all the outstanding common stock of The Company for common stock of LCJJ Holdings, Inc. (The Parent). Accordingly, effective January 1, 2016, The Company is a wholly-owned subsidiary of LCJJ Holdings, Inc.

As of December 31, 2021, The Company has registered its franchise with the States of California, Florida, Hawaii, Illinois, Maryland, Michigan, Minnesota, New York, Texas, Utah, Virginia, and Washington. As of December 31, 2021, The Company has franchisees in the States of Arizona, Nevada, Oklahoma and Oregon, where registration is not required.

Method of Accounting

The Company has prepared the accompanying financial statements using the accrual method of accounting in accordance with the basis of accounting principles generally accepted in the United States of America (GAAP).

Franchise Operations, Revenue Recognition, Contract Liabilities and Recently Adopted Accounting Pronouncement

The Company executes a franchise agreement for each unit, which sets forth the terms of The Company's arrangement with the franchisee. The franchise agreement typically requires the franchisee to pay a one-time franchise fee and royalty fees based upon a percentage of sales. The initial term of the franchise agreement ranges from five to ten years. The terms of the franchise agreement also provide franchisees the right to renew for a certain number of five-year periods at no additional renewal fee.

The Company recognizes revenues in accordance with the Accounting Standards Codification (ASC) No. 606, Revenue from Contracts with Customers. ASC No. 606 includes a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company derives its revenues from royalty fees and initial franchise fees in accordance to the franchise agreements. Revenues from services are recognized when performance obligations under the terms of the contract with customers are satisfied. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account for revenue recognition. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Franchise Operations, Revenue Recognition, Contract Liabilities and
Recently Adopted Accounting Pronouncement (Continued)**

Royalty fees represent the substantial majority of the consideration The Company receives under the franchise agreements. Royalty fees are recognized based on a 6.9% of franchisees' sales at the time the underlying sales occur. Payments for royalty fees are generally due within seven days of the prior week end date.

The franchise agreements also require a one-time, less significant initial franchise fee paid upon signing a franchise agreement (unless otherwise directed by a state regulator). Transfer fees are required in the event the franchise is subsequently transferred to another franchisee. The franchise fees are generally due upon entering the franchise agreements. On January 28, 2021, the FASB issued Accounting Standards Update (ASU) No. 2021-02, Franchisors – Revenue from Contracts with Customers (subtopic 952-606): Practical Expedient. The amendments in ASU No. 2021-02 permit non-public franchisors to account for pre-opening services provided to a franchisee as distinct from the franchise license if the services are consistent with those included in the predefined list within the ASU and to recognize the pre-opening services as a single performance obligation. The amendments in ASU No. 2021-02 require the non-public franchisors which have already adopted ASC No. 606 to apply this practical expedient retrospectively to the date ASC No. 606 was adopted. Accordingly, The Company adopted ASU No. 2021-02 during the year ended December 31, 2021 and comparative financial statements of the prior year have been adjusted to apply the new method of accounting for initial franchise fees revenues retrospectively to January 1, 2019, the date The Company adopted ASC No. 606.

Upon the adoption of ASU No. 2021-02, The Company determined that the performance obligations provided in exchange for the initial franchise fees are primarily related to the pre-opening services, which consist of assisting with the development of the franchised location, initial training and operations assistance during the commencement of operations. These services are included in the predefined list within ASU No. 2021-02. Consequently, The Company elected to recognize pre-opening services as a single performance obligation which is distinct from the franchise license and to recognize initial franchise fees when the franchise location opens ("upfront"), rather than over the term of the franchise license. Deferred franchise revenues resulting from franchise locations not yet opened are included in contract liabilities on The Company's balance sheets as of December 31, 2021 and 2020. Prior to the adoption of ASU No. 2021-02, The Company amortized the initial franchise fees on a straight-line basis over the initial terms of the respective franchise agreement. The Company did not elect any other practical expedients that require disclosure.

Direct costs related to franchise sales are deferred until the related franchise fees are recognized. As of December 31, 2021 and 2020, deferred direct costs related to franchise sales have not been reflected on the balance sheets as they are immaterial.

Indirect costs related to franchise operations are charged to operating expenses as incurred.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Franchise Operations, Revenue Recognition, Contract Liabilities and
Recently Adopted Accounting Pronouncement (Continued)

The cumulative effect of the changes made to The Company's balance sheet as of December 31, 2020 for the adoption of ASU No. 2021-02 is as follows:

	As of December 31, 2020		
	As Originally Reported	Adjustments due to ASU No. 2021-02	As Adjusted
<u>ASSETS:</u>			
Cash	\$ 1,123,012	\$ -	\$ 1,123,012
Accounts receivable, net	305,193	-	305,193
Receivable from affiliate	500,000	-	500,000
Note receivable from affiliate, net	37,249	-	37,249
	<u>\$ 1,965,454</u>	<u>\$ -</u>	<u>\$ 1,965,454</u>
<u>LIABILITIES AND SHAREHOLDER'S EQUITY</u>			
Current liabilities:			
Accounts payable	\$ 5,593	\$ -	\$ 5,593
Accrued expenses and other	45,219	-	45,219
Contract liabilities	116,917	(66,917)	50,000
Total current liabilities	<u>167,729</u>	<u>(66,917)</u>	<u>100,812</u>
Long-term liabilities:			
Contract liabilities	545,938	(178,938)	367,000
Paycheck Protection Program loan payable	120,800	-	120,800
Total long-term liabilities	<u>666,738</u>	<u>(178,938)</u>	<u>487,800</u>
Shareholder's equity:			
Common stock	10,000	-	10,000
Additional paid-in capital	54,000	-	54,000
Retained earnings	1,066,987	245,855	1,312,842
Total shareholder's equity	<u>1,130,987</u>	<u>245,855</u>	<u>1,376,842</u>
	<u>\$ 1,965,454</u>	<u>\$ -</u>	<u>\$ 1,965,454</u>

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Franchise Operations, Revenue Recognition, Contract Liabilities and
Recently Adopted Accounting Pronouncement (Continued)

The cumulative effect of the changes made to The Company's statement of income and retained earnings for the year ended December 31, 2020 for the adoption of ASU No. 2021-02 is as follows:

	Year Ended December 31, 2020		
	As Originally Reported	Adjustments due to ASU No. 2021-02	As Adjusted
REVENUES:			
Royalty fees	\$ 1,615,321	\$ -	\$ 1,615,321
Franchise fees	129,250	(19,249)	110,001
Total revenues	1,744,571	(19,249)	1,725,322
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	973,829	-	973,829
Income from operations	770,742	(19,249)	751,493
OTHER INCOME (EXPENSE):			
Recovery of impairment	246,917	-	246,917
Interest income, net	6,976	-	6,976
Total other income	253,893	-	253,893
NET INCOME	1,024,635	(19,249)	1,005,386
RETAINED EARNINGS, beginning of year	542,352	265,104	807,456
DIVIDENDS	(500,000)	-	(500,000)
RETAINED EARNINGS, end of year	\$ 1,066,987	\$ 245,855	\$ 1,312,842

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Franchise Operations, Revenue Recognition, Contract Liabilities and
Recently Adopted Accounting Pronouncement (Continued)

The cumulative effect of the changes made to The Company's statement of cash flows – reconciliation of net income to net cash provided by operating activities for the year ended December 31, 2020 for the adoption of ASU No. 2021-02 is as follows:

	Year Ended December 31, 2020		
	As Originally Reported	Adjustments due to ASU No. 2021-02	As Adjusted
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net income	\$ 1,024,635	\$ (19,249)	\$ 1,005,386
Adjustments to reconcile net income to net cash provided by operating activities:			
Recovery of impairment	(246,917)	-	(246,917)
Non-cash expense	44,175	-	44,175
Decrease in accounts receivable, net	26,817	-	26,817
(Increase) in note receivable from affiliate, net of allowance for impairment	(6,611)	-	(6,611)
Increase in accounts payable	3,612	-	3,612
(Decrease) in accrued expenses and other	(48,573)	-	(48,573)
Increase in contract liabilities	3,417	6,583	10,000
(Decrease) in long-term contract liabilities	(12,666)	12,666	-
Total adjustments	(236,746)	19,249	(217,497)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 787,889	\$ -	\$ 787,889

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Franchise Operations, Revenue Recognition, Contract Liabilities and Recently Adopted Accounting Pronouncement (Continued)

The impact of the adoption of ASU No. 2021-02 on The Company's balance sheet as of December 31, 2021 is as follows:

	As of December 31, 2021		
	As Reported	Balance without ASU No. 2021-02	Effect of Change Higher / (Lower)
<u>ASSETS:</u>			
Cash	\$ 2,665,105	\$ 2,665,105	\$ -
Accounts receivable, net	320,803	320,803	-
Receivable from affiliate	501,642	501,642	-
	<u>\$ 3,487,550</u>	<u>\$ 3,487,550</u>	<u>\$ -</u>
<u>LIABILITIES AND</u>			
<u>SHAREHOLDER'S EQUITY:</u>			
Current liabilities:			
Accounts payable	\$ 9,181	\$ 9,181	\$ -
Accrued expenses and other	28,284	28,284	-
Contract liabilities	318,000	141,883	176,117
Payable to affiliate	139,908	139,908	-
Payable to other	39,274	39,274	-
Total current liabilities	<u>534,647</u>	<u>358,530</u>	<u>176,117</u>
Long-term liabilities:			
Contract liabilities	<u>247,000</u>	<u>663,522</u>	<u>(416,522)</u>
Shareholder's equity:			
Common stock	10,000	10,000	-
Additional paid-in capital	54,000	54,000	-
Retained earnings	<u>2,641,903</u>	<u>2,401,498</u>	<u>240,405</u>
Total shareholder's equity	<u>2,705,903</u>	<u>2,465,498</u>	<u>240,405</u>
	<u>\$ 3,487,550</u>	<u>\$ 3,487,550</u>	<u>\$ -</u>

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Franchise Operations, Revenue Recognition, Contract Liabilities and
Recently Adopted Accounting Pronouncement (Continued)

The impact of the adoption of ASU No. 2021-02 on The Company's statements of income and retained earnings for the year ended December 31, 2021 is as follows:

	Year Ended December 31, 2021		
	As Reported	Balance without ASU No. 2021-02	Effect of Change Higher / (Lower)
REVENUES:			
Royalty fees	\$ 2,043,965	\$ 2,043,965	\$ -
Franchise fees	130,000	135,450	(5,450)
Total revenues	2,173,965	2,179,415	(5,450)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,118,328	1,118,328	-
Income from operations	1,055,637	1,061,087	(5,450)
OTHER INCOME (EXPENSE):			
Recovery of impairment	150,000	150,000	-
Paycheck Protection Program loan forgiveness	120,800	120,800	-
Interest income, net	1,624	1,624	-
Other income	1,000	1,000	-
Total other income	273,424	273,424	-
NET INCOME	1,329,061	1,334,511	(5,450)
RETAINED EARNINGS, beginning of year	1,312,842	1,066,987	245,855
RETAINED EARNINGS, end of year	\$ 2,641,903	\$ 2,401,498	\$ 240,405

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Franchise Operations, Revenue Recognition, Contract Liabilities and
Recently Adopted Accounting Pronouncement (Continued)

The contract liabilities are comprised of deferred initial franchise fees. During the years ended December 31, 2021 and 2020, The Company recognizes the changes in contract liabilities as follows:

	December 31,	
	2021	2020
Balance at the beginning of the year	\$ 417,000	\$ 407,000
Revenue recognized that was included in the franchise fees received at the beginning of the year	(50,000)	(40,000)
Increase in deferred franchise revenue associated with franchise agreements that became effective, net of amounts recognized as revenue during the current year	198,000	50,000
Balance at the end of the year	<u>\$ 565,000</u>	<u>\$ 417,000</u>

For the years ended December 31, 2021 and 2020, The Company entered into seven and four, respectively, franchise agreements, some as a result of transfers. As of December 31, 2021 and 2020, forty and thirty-nine, respectively, franchised locations are in operation.

Cash

For the purpose of the statements of cash flows, The Company considers all demand deposit accounts and all interest bearing time deposit accounts due on demand to be cash.

Accounts Receivable

Accounts receivable are receivables, which arise in the ordinary course of business, and are recorded at invoice prices. Accounts receivable are stated at the outstanding amount of invoices for royalty fees and franchise fees, net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on a review of outstanding accounts receivable, historical bad debt experience and existing economic conditions, including the impact of the COVID-19 pandemic. The Company utilizes contractual terms to determine the delinquency status of accounts receivable. Delinquent accounts receivable are written off to expense based on an individual credit evaluation. As of December 31, 2021 and 2020, The Company has an allowance for doubtful accounts of \$47,000.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivable from Affiliate and Note Receivable from Affiliate

Receivable from affiliate and note receivable from affiliate is recorded at cost, less any allowance for impairment. Interest income on the note receivable is recognized over the term of the note and is computed using the compound-interest method on the outstanding balance. A note receivable is placed on nonaccrual-of-interest status, when management believes that the collection of interest is doubtful. The Company, considering the borrowers' credit conditions, including their current financial situation, historical collection experience and other events regarding the borrowers' abilities to repay their obligations, determines the receivable and note receivable to be impaired when it is probable that The Company will be unable to collect all amounts due according to the contractual terms of the receivable agreements. The Company utilizes contractual terms to determine the delinquency status of the receivable and note receivable. Based on an assessment of credit conditions, The Company determines if an impaired receivable, or a portion thereof, is charged off to expense, or an allowance for impairment is required. As of December 31, 2020, The Company had an allowance for impairment of \$150,000 on the note receivable from affiliate. During the year ended December 31, 2021, the note receivable from affiliate was repaid in full, as discussed in Note C. As of December 31, 2021, The Company considers receivable from affiliate to be fully collectible, and accordingly, no allowance for impairment is recorded.

A reconciliation of the allowance for impairment on the note receivable from affiliate is as follows:

	December 31,	
	2021	2020
Beginning of the year, allowance for impairment	\$ 150,000	\$ 396,917
Recovery of impairment	(150,000)	(246,917)
End of year, allowance for impairment	\$ -	\$ 150,000

State Franchise Tax and Other State Taxes

Effective January 1, 2016, The Company is a qualified S Corporation subsidiary of The Parent and does not file separate income tax returns. As a result of The Parent's election to be treated as an S Corporation and the election by The Parent to have its subsidiaries, including The Company, become qualified S Corporation subsidiaries, The Parent and its qualified S Corporation subsidiaries are only subject to California State franchise tax at a rate of 1.5% and other State taxes. Federal and State individual income taxes are paid by the shareholders of The Parent based on taxable income reported by The Parent and its qualified S Corporation subsidiaries. The Parent is responsible for The Company's State tax expense. Deferred State franchise tax and other State taxes have not been reflected on the financial statements as they are insignificant.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Franchise Tax and Other State Taxes (Continued)

The Company accounts for income taxes and uncertainty in income taxes in accordance with the provisions of FASB ASC No. 740, "Income Taxes." These provisions clarify the accounting for uncertainty in income taxes recognized in an entity's financial statements. Under the standard, the tax benefit from an uncertain tax position is to be recognized as a reduction of income tax expense when it is more likely than not, based on the technical merits of the position, that the position will be sustained on examination by the tax authorities including resolution of any related appeals or litigation processes. Additionally, the amount of the tax benefit to be recognized is the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the taxing authorities. The standard also provides guidance for derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of December 31, 2021 and 2020, The Company has no uncertain tax position that requires either recognition or disclosure in the financial statements. For the years ended December 31, 2021 and 2020, The Company has no interest and penalties related to income taxes.

With few exceptions, The Company's open periods for Federal and State tax examinations are from December 31, 2018 through 2021 and December 31, 2017 through 2021, respectively.

Variable Interest Entities

An entity is referred to as a variable interest entity (VIE) if it meets at least one of the following criteria: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support of other parties; or (2) as a group, the holders of the equity investment at risk lack (a) the power to direct the activities of an entity that most significantly impact the entity's economic performance; (b) the obligation to absorb the expected losses; or (c) the right to receive the expected residual returns; or (3) have disproportional voting rights and the entity's activities are conducted on behalf of the investor that has disproportionately few voting rights.

The Company consolidates a VIE when The Company has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, including potential impacts arising from the COVID-19 pandemic and related government actions, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncement

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which will require leases to be recorded as an asset on the balance sheet for the right to use the leased asset and a liability for the corresponding lease obligation for leases with terms of more than twelve months. ASU No. 2016-02 is effective for non-public entities for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is evaluating the impact the pronouncement may have on the financial statements.

Subsequent Events

Management evaluated subsequent events through March 10, 2022, the date on which the financial statements are available to be issued.

NOTE B – RECEIVABLE FROM AFFILIATE AND SUBSEQUENT EVENT

As of December 31, 2021 and 2020, The Company has a receivable of \$501,642 and \$500,000, respectively, from an affiliate corporation that is a wholly-owned subsidiary of The Parent. The receivable is an interest free receivable and due on December 31, 2022.

As of the date of this report, the \$500,000 receivable from affiliate has been repaid in full.

NOTE C – NOTE RECEIVABLE FROM AFFILIATE

The Company had an unsecured note receivable from an affiliate corporation. The minority shareholders of the affiliated corporation are also the majority shareholders of The Parent. The interest rate was at 2%. As of December 31, 2020, The Company had an outstanding balance of \$37,249, net of allowance for impairment of \$150,000. During the year ended December 31, 2021, this note receivable was repaid in full. For the years ended December 31, 2021 and 2020, interest income related to note receivable from affiliate was \$1,288 and \$6,611, respectively.

NOTE D – PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

In April 2020, The Company received loan proceeds in the amount of \$120,800 under the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). The PPP, established as part of the CARES Act, provides for loans to qualifying business for amounts up to 2.5 times the average monthly payroll costs of the qualifying business.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE D – PAYCHECK PROTECTION PROGRAM LOAN PAYABLE (Continued)

The PPP loan principal and accrued interest are forgivable provided The Company meets certain requirements and utilizes the loan proceeds for eligible costs incurred and paid during the 24-week period after the loan is funded. Eligible costs under the PPP are: certain payroll costs, mortgage interest, rent and utilities. In order for all eligible costs to be forgiven, The Company must use at least 60% of the loan proceeds for payroll costs and also maintain specified employee headcount and compensation levels during the specified 24-week period after the loan is funded. The amount of the loan forgiveness may be reduced if The Company utilizes the loan proceeds for other than eligible costs or does not meet the aforementioned criteria during the 24-week period after the loan is funded.

During the year ended December 31, 2021, the PPP loan was forgiven by the SBA.

NOTE E – OTHER RELATED PARTY TRANSACTIONS

Payable to Other

As of December 31, 2021, The Company has \$39,274 payable to individual who is the majority shareholder of The Parent. The payable is an interest free payable and due on December 31, 2022.

Royalty Fees

As of December 31, 2021 and 2020, accounts receivable include royalty fees receivable of \$6,436 and \$3,727, respectively, owed to The Company by an affiliated corporation, whose minority shareholders are also the majority shareholders of The Parent. For the years ended December 31, 2021 and 2020, total royalty fees earned from this affiliated corporation are \$300,077 and \$228,864, respectively.

As of December 31, 2021 and 2020, accounts receivable include royalty fees receivable of \$4,849 and \$8,238, respectively, owed to The Company by an affiliated corporation, whose minority shareholder is also the minority shareholder of The Parent. For the years ended December 31, 2021 and 2020, total royalty fees earned from this affiliated corporation are \$57,044 and \$52,396, respectively.

Operating Expenses

As of December 31, 2021 and 2020, accounts payable include \$9,181 and \$5,593, respectively, of training costs, relating to training and operations assistance to franchisees, due to an affiliated corporation, whose minority shareholders are also the majority shareholders of The Parent. For the years ended December 31, 2021 and 2020, total training costs charged by this affiliated corporation are \$36,208 and \$21,513, respectively.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE E – OTHER RELATED PARTY TRANSACTIONS (Continued)

Operating Expenses (Continued)

For the years ended December 31, 2021 and 2020, the legal expenses include \$108,445 and \$44,175, respectively, reimbursable to an affiliated corporation, whose minority shareholders are also the majority shareholders of The Parent. The \$108,445 of legal expense reimbursement is included in the \$139,908 payable to affiliate as of December 31, 2021. During the year ended December 31, 2020, \$44,175 of legal expense reimbursement was offset with the note receivable from affiliate discussed in Note C.

For each of the years ended December 31, 2021 and 2020, the accounting expenses include \$18,000 reimbursable to an affiliated corporation that is a wholly-owned subsidiary of The Parent. As of December 31, 2021 and 2020, accrued expense includes \$4,500 and \$0, respectively, of accounting expense to the affiliated corporation.

NOTE F – CONCENTRATIONS

Major Customers

For both of the years ended December 31, 2021 and 2020, The Company has one related major customer comprising over 10% of total revenues. This related major customer is an affiliated corporation whose minority shareholders are also the majority shareholders of The Parent. For both of the years ended December 31, 2021 and 2020, revenues from the related major customer are approximately 14% and 13%, respectively, of total revenues. As of December 31, 2021 and 2020, the related major customer maintains outstanding accounts receivable of approximately 2% and 1%, respectively, of total outstanding accounts receivable.

Credit Risk

Financial instruments that potentially subject The Company to credit risk include cash on deposit with financial institutions amounting to \$2,711,615 and \$1,132,158 at December 31, 2021 and 2020, respectively, of which \$2,461,615 and \$882,158, respectively, is in excess of applicable U.S. Federal Deposit Insurance Corporation coverage. The difference between the carrying amount of cash and the bank balance is primarily due to outstanding checks and deposits in transit.

The Company has a concentration of credit risk with respect to accounts receivable. In the ordinary course of business, The Company grants credit to customers, who are located in the United States, and requires no collateral. The Company manages credit risk by performing ongoing credit evaluations and monitoring collection activity with respect to its customers.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE G – COMMITMENTS, CONTINGENCIES, RELATED PARTY TRANSACTIONS AND
SUBSEQUENT EVENT

Operating Lease

The Company leases its office facility in San Jose, California from the majority shareholders of The Parent under an operating lease agreement expiring June 30, 2025. For each of the years ended December 31, 2021 and 2020, total rent expense for the related party lease is \$120,000.

A schedule of future minimum lease payments is as follows:

<u>Years Ending December 31,</u>	
2022	\$ 120,000
2023	120,000
2024	120,000
2025	<u>60,000</u>
	<u>\$ 420,000</u>

Borrowing Agreements with a Bank and Subsequent Event

The Company has a joint borrowing agreement with a corporation and a limited liability company which are wholly-owned subsidiaries of The Parent and two corporations whose minority shareholders are also the majority shareholders of The Parent for a working capital line of credit with a bank which allows for borrowings up to \$3,500,000 through October 16, 2022. Interest is at 0.1% below the prime rate. The borrowing agreement is secured by substantially all assets of The Company and the joint borrowers and a deed of trust on the real property owned by the majority shareholders of The Parent and leased to The Company. The borrowing agreement is also guaranteed by the majority shareholders of The Parent. As of December 31, 2021 and 2020, the outstanding balance on this borrowing agreement is \$2,977,000 and \$1,630,000, respectively, and is reflected as a liability on books and records of the wholly-owned corporation of The Parent.

The Company, a corporation and a limited liability company which are wholly-owned subsidiaries of The Parent and two corporations whose minority shareholders are also the majority shareholders of The Parent have a joint note payable to a bank. The note requires 84 monthly principal and interest payments of \$35,801, beginning January 5, 2021, with interest rate at 3.5%. The interest rate will be adjusted to the bank's prime rate, subject to a floor of 3.5%, beginning January 5, 2028 through May 5, 2028, at which time all outstanding principal and accrued interest will be due. The borrowing agreement is secured by substantially all assets of The Company and the joint borrowers and deeds of trust on two real properties owned by the majority shareholders of The Parent. The note agreement is also guaranteed by the majority shareholders of The Parent. As of December 31, 2021 and 2020, the outstanding balance on this borrowing agreement is \$2,461,966 and \$2,798,269, respectively, and is reflected as a liability on books and records of the wholly-owned corporation of The Parent.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

**NOTE G – COMMITMENTS, CONTINGENCIES, RELATED PARTY TRANSACTIONS AND
SUBSEQUENT EVENT (Continued)**

Borrowing Agreements with a Bank and Subsequent Event (Continued)

The Company, a corporation and a limited liability company which are wholly-owned subsidiaries of The Parent and two corporations whose minority shareholders are also the majority shareholders of The Parent have a joint note payable to a bank. The note is payable in fixed monthly payments of \$16,909, principal and interest, through the note's maturity on December 23, 2022, at which time all outstanding principal and accrued interest will be due. Interest is at the prime rate. The borrowing agreement is secured by substantially all assets of The Company and the joint borrowers and is also guaranteed by the majority shareholders of The Parent. As of December 31, 2021 and 2020, the outstanding balance on this borrowing agreement is \$192,671 and \$379,213, respectively, and is reflected as a liability on books and records of the wholly-owned corporation of The Parent.

The Company has a joint borrowing agreement with a corporation and a limited liability company which are wholly-owned subsidiaries of The Parent and two corporations whose minority shareholders are also the majority shareholders of The Parent for a capital equipment line of credit with a bank. The line of credit allows for borrowings up to \$1,574,248 through February 26, 2021, at which time the line of credit was converted to a term loan. Interest is at 0.75% below the prime rate, subject to a floor of 3.5%, maturing on August 26, 2030. The borrowing agreement is secured by substantially all assets of The Company and the joint borrowers and is also guaranteed by the majority shareholders of The Parent. The borrowing agreement is also guaranteed by the majority shareholders of The Parent. As of December 31, 2021 and 2020, the outstanding balance on this borrowing agreement is \$1,512,708 and \$1,259,398, respectively, and is reflected as a liability on books and records of the wholly-owned corporation of The Parent.

The borrowing agreements provide that The Company and the co-borrowers meet certain financial requirements on a combined basis. As of the date of this report, The Company and the co-borrowers have not completed their combined financial statements for the year ended December 31, 2021; accordingly, compliance with the financial requirements has not been determined. Non-compliance of the financial requirements may result in the bank demanding immediate repayment of all outstanding balances under the borrowing agreements, which may have a severe impact on The Company's operations, cash flows and financial position.

Litigation

In 2019, The Company and an affiliated corporation, whose minority shareholders are also the majority shareholders of The Parent, jointly filed a lawsuit against a former franchisee for the outstanding accounts receivable owed to them. The Company was seeking a reimbursement of \$255,430 from this lawsuit. During the year ended December 31, 2021, The Company received an award settlement from the arbitrator for this lawsuit. However, The Company did not recognize this settlement income on the statements of income due to uncertainty of collection as of December 31, 2021. Any recoveries arising from this lawsuit will be recorded as income in the year received.

LEE'S SANDWICHES INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

**NOTE G – COMMITMENTS, CONTINGENCIES, RELATED PARTY TRANSACTIONS AND
SUBSEQUENT EVENT (Continued)**

Other

Certain States require The Company to renew its franchise registration annually. As a condition to registration, The Company is required to demonstrate that adequate financial arrangements have been made to fulfill The Company's obligations to prospective franchisees under the franchise offering. If the States determine The Company has failed to demonstrate adequate financial arrangements, The Commissioner may require either the impound of franchisee fees and other funds paid by the franchisee, or the deferral of the payment of franchise fees owed by the franchisee, until The Company's obligations to the franchisee have been satisfied. As of December 31, 2021 and 2020, The Company is not subject to impound or deferral requirement imposed by the State of California or other States in which The Company has franchises in operation or under development.

NOTE H – COVID-19 PANDEMIC UPDATE AND SUBSEQUENT EVENT

During the years ended December 31, 2021 and 2020, The Company's operations were disrupted through government mandated shelter-in-place orders as a result of the worldwide COVID-19 pandemic. The pandemic has resulted in significant sales volatility due to changing customer habits. Therefore, The Company expects continued uncertainty in its operations due to the duration and intensity of the COVID-19 pandemic; duration and extent of economic stimulus, volatility in employment trends, customer confidence, supply chain disruption, efficacy and availability of a vaccine and treatments for COVID-19. Consequently, while The Company expects this matter to continue impacting sales and operations, The Company cannot reasonably estimate the financial impact at this time due to the uncertainty of future developments.

LEE'S SANDWICHES INTERNATIONAL, INC.
LISTS OF CURRENT FRANCHISEES, FORMER FRANCHISEES AND
AFFILIATE-OWNED LOCATIONS AS OF 12/31/22
EXHIBIT G TO THE DISCLOSURE DOCUMENT

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

CURRENT FRANCHISEES AS OF 12/31/2022

<u>Name</u>	<u>Address</u>	<u>City/State/Zip</u>	<u>Phone</u>
Van Bros. LLC	1901 W. Warner Rd. #8	Chandler, AZ 85224	(480) 855-1929
VNTT, Inc.	13686 N 75 th Ave.	Peoria, AZ. 85381	(623) 299-8888
Tin Thanh Food, LLC	3014 W. Lincoln Ave.	Anaheim, CA 92801	(714) 826-9888
Hola Thaphu, LLC	659 N. Euclid Street	Anaheim, CA 92801	(714) 635-8802
JKIM Food Inc.	1228 S. Magnolia Ave.	Anaheim, CA 92804	(714) 723-6105
THUY MOC, LLC	18001 Pioneer Blvd.	Artesia, CA 90701	(562) 809-6869
HUYNH GIA, INC.	13540 Lakewood Blvd.	Bellflower, CA 90242	(562) 220-2699
HUA Partners, LLC	3938 Grand Avenue #A	Chino, CA 91710	(909) 628-3999
Thuy Moc Corp.	5201 E. Washington Blvd, Ste B	Commerce, CA 90040	(323) 261-0358
VHI, LLC	2276 Griffin Way, Suite 106	Corona, CA 92879	(951) 340-2605
Le Brothers Enterprises, LLC	5950 Corporate Ave., Ste. 500	Cypress, CA 90630	(714) 821-1175
Arthur Alex, INC.	16155 Harbor #A	Fountain Valley, CA 92708	(714) 531-0888
EAA HUYNH, INC.	12905 Harbor Boulevard	Garden Grove, CA 92840	(714) 638-4267
MVP Partners Enterprise, LLC	1451 W. Artesia Blvd #13	Gardena, CA 90248	(310) 920-4775
Thuy Moc No 1 LLC	12140 E. Carson St. #A	Hawaiian Garden, CA 90716	(562) 421-3203
Tuyet Hoa, Inc.	16058 Goldenwest Street	Huntington Beach, CA 92647	(714) 847-1588
Jillian Phan	16900 Sherman Way	Lake Balboa, CA 91406	(818) 654-6564
Thuy Moc Corp	23624-C El Toro Road	Lake Forest, CA 92630	(949) 829-8600
RYLH, Inc.	4748 East Pacific Highway	Long Beach, CA 90804	(562) 809-6869
Indefinite Colossal, INC.	6598 Cherry Ave. #B	Long Beach, CA 90805	(562) 728-1088
Tri Viet, LLC	2958 East Anaheim	Long Beach, CA 90804	(562) 856-9888
Indefinite Colossal 2, Inc.	12209 Norwalk Blvd.	Norwalk, CA 90650	(562) 651-6699
Eden Socal Restaurants, Inc.	3070 W. Chapman Ave.	Orange, CA 92883	(714) 695-5337
VBREAD Socal, Inc.	2602 E. Chapman Ave.	Orange, CA 92869	(714) 941-6388
RDM Studio Corp.	766 E. Colorado Blvd #100	Pasadena, CA 91101	(626) 796-1908
Prevailer, LLC.	8110 Milliken Ave #101	Rancho Cucamonga, CA 91730	(909) 285-0051
RHTC, INC.	1889 University Ave.	Riverside, CA 92507	(951) 248-0108
Thuy Moc Corp	3350 S. Bristol St., Ste. A	Santa Ana, CA 92704	(714) 754-1270
SD Sandwiches, Inc.	5801 University Ave #B-1	San Diego, CA 92115	(619) 320-6598
Anh Minh Pham	2307 McKee Road	San Jose, CA 95116	(408) 258-1155
LALUAN HUYNH	990 Story Rd #30	San Jose, CA 95122	(408) 295-3402
VN Cuisine & Sandwiches, Inc.	12550 Beach Blvd.	Stanton, CA 90680	(714) 892-9696
Torrance One Sandwiches, LLC	2370 Crenshaw Blvd., Ste. D	Torrance, CA 90501	(310) 782-7879
Frank's Sandwiches, LLC	1145 W. Carson St.	Torrance, CA 90502	(310) 328-3600
Victoria Tran Corporation	6731 Westminster Blvd., Ste. 109	Westminster, CA 92683	(714) 892-5959

EXHIBIT G TO THE DISCLOSURE DOCUMENT (continued)

<u>Name</u>	<u>Address</u>	<u>City/State/Zip</u>	<u>Phone</u>
MTTT Limited, LLC.	5660 Barnes Rd	Colorado Springs, CO 80917	(719) 966-1555
Dragon Yolk, LLC.	2905 W Alameda Ave.	Denver, CO 80219	(720) 880-9684
Ben Capital Management, Inc.	9530 S. Eastern Ave., Ste. 150	Henderson, NV 89102	(702) 331-9999
Ben Capital Management, Inc.	3989 Spring Mountain Rd.	Las Vegas, NV 89102	(702) 586-1999
Ben Capital Management, Inc.	7537 S. Rainbow Blvd., Ste. 104	Las Vegas, NV 89139	(702) 823-2222
AJMT, LLC**	3300 N. Classen Blvd.	Oklahoma City, OK 73118	(405) 601-2161
Portland Group, Inc.*	4124 SE 82 nd Ave, #788	Portland, Oregon 97266	(503) 206-4218
Golden Houston Investment, Inc.*	11210 Bellaire Blvd. #113	Houston, Texas 77072	(281) 933-9988
LV & H Deli Express, LLC.	3212 N. Jupiter Rd., Suite 101	Garland, Texas 75044	(214) 380-2388
SMBP, Inc. **	801 N. Quincy St.	Arlington, VA 2203	(571) 970-1043
SMBP, Inc. **	3037 Annandale Rd.	Falls Church, VA 22042	(703) 532-0319

* **Some of our officers have ownership interests in this franchisee**

** **Denotes Area Developer**

Franchise Agreement Signed But Store Not Yet Open

J&J, Inc.
Fresno, CA
Name: Vinh Ly
Phone: (559) 288-2503
Email: vin10ly@yahoo.com

JTY Investment LLC.
3505 Van Buren Blvd., Ste. #107, Riverside, CA 92503
Name: Sopheak Yoeun
Email: jayyos@yahoo.com

T&T Enterprise, LLC.
3061 Day Rd. Suite #107, Duluth, GA 30096
Name: Tai Ngoc Cao & Tuan Truong
Phone: 404-580-6221 / 678-900-9244
Email: tuantruong88@yahoo.com

Area Development Agreement Signed but Franchise Agreement Not Yet Signed

None

Franchisees who transferred their Unit and left the System in 2022

LEPHAM Food And Beverage, Inc./Yen Le (Hawaiian Gardens, CA)
(714) 746-7103

EXHIBIT G TO THE DISCLOSURE DOCUMENT (continued)

Minh Long Corporation/Thuy Bui (Huntington Beach, CA)
(714) 488-7298

Lang Pho Socal, Inc./Toan Da (Norcal, CA.)
(714) 234-8845

Gold Mont Capital, Inc./Trinh Vo (Rancho Cucamonga, CA)
(714) 860-2149

OC Food Enterprises, LLC/Vui Nguyen (Santa Ana, CA)
(949) 559-3692

JNJ Lees, LLC/Mike Chen (Garland, TX)
(214) 882-2780

Locations Owned By Our Affiliate LQNN, Inc. as of our last fiscal year ending 12/31/22

1289 East Valley Boulevard
Valley Supermarket Center
Alhambra, CA 91801
Phone: (626) 282-5589

1028 South Harbor Boulevard
Costco Center
Fullerton, CA 92832
Phone: (714) 525-6089

13991 Brookhurst Street
Westminster Avenue
Garden Grove, CA 92843
Phone: (714) 636-2288

8779 East Valley Boulevard
Muscatel Avenue
Rosemead, CA 91770
Phone: (626) 291-2688

9261 Bolsa Avenue
Westminster, CA 92683
Phone: (714) 901-5788

EXHIBIT H TO DISCLOSURE DOCUMENT

FRANCHISEE DISCLOSURE QUESTIONNAIRE

No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

The questionnaire does not waive any liability the franchisor may have under the Washington Franchise Investment Protection Act, RCW 19.100, and the rules adopted thereunder.

We request that the Prospective Franchisee (also called "me," "our," "us," "we" and/or "I" in this document) respond to provide the information below. Please review each of the following questions carefully and provide honest and complete responses to each question.

1. Have you received and personally reviewed Lee's Sandwiches International, Inc. Franchise Agreement and each exhibit, addendum and schedule attached to it?
Yes ____ No ____
2. Have you received and personally reviewed our Disclosure Document we provided to you?
Yes ____ No ____
3. Have you discussed the benefits and risks of operating the franchised business with an attorney, accountant or other professional advisor?
Yes ____ No ____
4. Has any employee or other person speaking on our behalf made any statement or promise concerning the revenues, sales or profits of the franchised business that our affiliate or our franchisees operate?
Yes ____ No ____
5. Has any employee or other person speaking on our behalf made any statement or promise concerning a franchised business that is contrary to, or different from, the information contained in the Disclosure Document?
Yes ____ No ____
6. Has any employee or other person speaking on our behalf made any statement or promise concerning the likelihood of success that you should or might expect to achieve from operating a franchised business?
Yes ____ No ____
7. Has any employee or other person speaking on our behalf made any statement, promise or agreement concerning the advertising, marketing, training, support service or assistance that we will furnish to you that is contrary to, or different from, the information contained in the Disclosure Document?
Yes ____ No ____
8. If you have answered "Yes" to any of questions 4 through 7, please provide a full explanation of your answer in the following blank lines. (Attach additional pages, if necessary, and refer to them below.) If you have answered "No" to each of these questions, please leave the following lines blank.

EXHIBIT H TO THE DISCLOSURE DOCUMENT (continued)

Your answers are important to us and we will rely on them.

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

Name of Franchisee/Applicant

Date: _____, 20____

Signature

Name and Title of Person Signing

LEE'S SANDWICHES INTERNATIONAL, INC.
MULTI-STATE ADDENDA TO THE DISCLOSURE DOCUMENT

EXHIBIT I TO THE DISCLOSURE DOCUMENT

**ADDENDUM TO THE
LEE'S SANDWICHES INTERNATIONAL, INC.
FRANCHISE DISCLOSURE DOCUMENT**

FOR THE STATE OF CALIFORNIA

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

2. Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

You must sign a general release if you renew or transfer your franchise. California Corporations Code §31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code §§31000 through 31516). Business and Professions Code §20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code §§20000 through 20043).

Neither the franchisor, any person or franchise broker in ITEM 2 of the Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling these persons from membership in the association or exchange.

3. ITEM 17 of the Disclosure Document is amended to add the following:

- The California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer or non-renewal of a franchise. If the Franchise Agreement or Area Development Agreement contain a provision that is inconsistent with the law, the law will control.
- The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).
- Both the Franchise Agreement and the Area Development Agreement require Franchisee to sign a general release as a condition of transfer. This general release shall exclude claims arising under California law.
- The Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.
- The Franchise Agreement requires binding arbitration. The arbitration will occur at the forum indicated in ITEM 17 with the costs being borne by the non-prevailing party. Prospective franchisees are encouraged to consult legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of the Franchise Agreement restricting venue to a forum outside the State of California.
- The Franchise Agreement and Area Development Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.
- The following URL address is for the franchisor's website: www.leessandwiches.com

FRANCHISOR'S WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AT www.dfpi.ca.gov.

FOR THE STATE OF HAWAII

1. The following list reflects the status of our franchise registrations in the states which have franchise registration and/or disclosure laws:

- This registration is currently effective in the states of: California, Florida, Illinois, Maryland, Michigan, Minnesota, New York, Texas, Utah, and Washington.
- This proposed registration is on file with or will shortly be on file with the states of California, Hawaii, Indiana, Kentucky, Maryland, Minnesota, Nebraska, New York, North Dakota, Rhode Island, South Dakota, Texas, Utah, and Wisconsin.
- There are no states which have refused, by order or otherwise, to register these franchises.
- There are no states which have revoked or suspended the right to offer these franchises.

2. The Franchise Agreement has been amended as follows:

- The Hawaii Franchise Investment Law provides rights to the franchisee concerning non-renewal, termination and transfer of the Franchise Agreement. If the Franchise Agreement, and more specifically, Sections 4.2, 16.2 and 19 contain a provision that is inconsistent with the Hawaii Franchise Investment Law, the Hawaii Franchise Investment Law will control.
- Sections 4.2.2.9, 19.2.3 and 19.2.6 of the Franchise Agreement require franchisee to sign a general release as a condition of renewal and transfer of the franchise; and Sections 5.2, 5.3 and 8.3 require franchisee to sign a general release as a condition of receiving a refund and a portion of the franchise fee following termination; this release shall exclude claims arising under the Hawaii Franchise Investment Law.
- Section 16.2.1.12 of the Franchise Agreement, which terminates the Franchise Agreement upon the bankruptcy of the franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, *et seq.*).

3. The Receipt Pages are amended to add the following:

- THIS FRANCHISE WILL BE/HAVE BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.
- THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, OR SUBFRANCHISOR, AT LEAST SEVEN DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE, OF ANY BINDING FRANCHISE, MULTIPLE RESTAURANT DEVELOPMENT OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY THE FRANCHISEE, OR SUBFRANCHISOR, WHICHEVER OCCURS FIRST, A COPY OF THE DISCLOSURE DOCUMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.
- THIS DISCLOSURE DOCUMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT, THE AREA DEVELOPMENT AGREEMENT AND THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

FOR THE STATE OF ILLINOIS

- For choice of law purposes, and for the interpretation and construction of the Franchise and Area Development Agreements, the Illinois Franchise Disclosure Act, 815 ILCS 705 governs.
- No action for liability under the Illinois Franchise Disclosure Act shall be maintained unless brought before the expiration of 3 years after the act or transaction constituting the violation upon which it is based, the expiration of 1 year after the Franchisee becomes aware of facts or circumstances reasonably indicating that he may have a claim for relief in respect to conduct governed by the Act, or 90 days after delivery to the Franchisee of a written notice disclosing the violation, whichever shall first expire.
- Illinois law governs the Franchise Agreement and Area Development Agreement (without regard to conflict of laws), and jurisdiction and venue for court litigation shall be in Illinois.
- Any provision in the Franchise Agreement requiring a general release is void to the extent that the provision requires a waiver of compliance with the Illinois Franchise Disclosure Act.
- Any provision in the Franchise Agreement and Area Development Agreement that designates jurisdiction or venue in a forum outside the State of Illinois is void, provided that a Franchise Agreement and Area Development Agreement may provide for arbitration in a forum outside of Illinois.

ITEM 17 of the Disclosure Document is amended to add the following:

- The conditions under which a franchise can be terminated and your rights upon non-renewal, as well as the application by which you must bring any claims, may be affected by Sections 705/19 and 20 of the Illinois Franchise Disclosure Act of 1987, 815 ILCS 705/19 and 705/20.
- The Illinois Franchise Disclosure Act provides that any provision in the Franchise Agreement which designates jurisdiction or venue in a forum outside of Illinois is void with respect to any cause of action which otherwise is enforceable in Illinois

FOR THE STATE OF INDIANA

1. ITEM 8 of the Disclosure Document is amended to add the following:
 - Under Indiana Code Section 23-2-2.7-1(4), the franchisor will not obtain money, goods, services, or any other benefit from any other person with whom the franchisee does business, on account of, or in relation to, the transaction between the franchisee and the other person, other than for compensation for services rendered by the franchisor, unless the benefit is promptly accounted for, and transmitted by the franchisee.
2. ITEMS 6 and 9 of the Disclosure Document are amended to add the following:
 - The franchisee will not be required to indemnify franchisor for any liability imposed upon franchisor as a result of franchisee's reliance upon or use of procedures or products which were required by franchisor, if the procedures or products were utilized by franchisee in the manner required by franchisor.
3. ITEM 17 of the Disclosure Document is amended to add the following:
 - Indiana Code 23-2-2.7-1(7) makes unlawful unilateral termination of a franchise unless there is a material violation of the Franchise Agreement and termination is not in bad faith.
 - Indiana Code 23-2-2.7-1(5) prohibits a prospective general release of claims subject to the Indiana Deceptive Franchise Practices Law.
 - ITEM 17(r) is amended subject to Indiana Code 23-2-2.7-1(9) to provide that the post-term non-competition covenant shall have a geographical limitation of the territory granted to Franchisee.
 - ITEM 17(u) is amended to provide that arbitration between a Franchisee and Franchisor will be conducted in Indiana or a site mutually agreed upon.
 - ITEM 17(v) is amended to provide that Franchisees will be permitted to commence litigation in Indiana for any cause of action under Indiana law.
 - ITEM 17(w) is amended to provide that in the event of a conflict of law, Indiana Law governs any cause of action which arises under the Indiana Disclosure Law or the Indiana Deceptive Franchise Practices Act.

FOR THE STATE OF MARYLAND

1. ITEM 17 of the Disclosure Document is amended to add the following:
 - The general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
 - Any litigation between Franchisee and Franchisor may be instituted in any court of competent jurisdiction, including a court in the State of Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.
 - Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.
 - The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, *et seq.*).
2. Exhibit H to the Disclosure Document is amended as follows:
 - Any portion of the Disclosure Questionnaire requiring Franchisee to assent to any release, estoppel or waiver of liability as a condition of purchasing the Franchise are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

FOR THE STATE OF MINNESOTA

1. ITEM 13 of the Disclosure Document is amended as follows:
 - As required by the Minnesota Franchise Act, Minn. Stat. Sec. 80C.12(g), Franchisor will reimburse the Franchisee for any costs incurred by the Franchisee in the defense of the Franchisee's right to use the marks, so long as the Franchisee was using the marks in the manner authorized by Franchisor, and so long as Franchisor is timely notified of the claim and given the right to manage the defense of the claim including the right to compromise, settle or otherwise resolve the claim, and to determine whether to appeal a final determination of the claim.
2. ITEM 17 of the Disclosure Document is amended as follows:
 - With respect to franchises governed by Minnesota law, the Franchisor will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5 which require, except in certain specified cases, that a Franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice of non-renewal of the Franchise Agreement and/or the Area Development Agreement.
 - ITEM 17 shall not provide for a prospective general release of claims against Franchisor which may be subject to the Minnesota Franchise Law. Minn. Rule 2860.4400D prohibits a franchisor from requiring a franchisee to assent to a general release.
 - Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibit franchisor from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or Franchise Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or franchisee's rights to any procedure, forum or remedies provided for by the laws of the jurisdiction.

FOR THE STATE OF 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 D OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND THE APPROPRIATE STATE OR PROVINCIAL AUTHORITY.**
- **THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE CIRCULAR. 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 DISCLOSURE DOCUMENT.**

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

With the exception of what is stated above, the following applies 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 ten 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 law, 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 franchises, 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 the “Summary” sections of Item 17(c), titled **“Requirements for franchisee to renew or extend,”** and Item 17(m), titled **“Conditions for Franchisor Approval of transfer”**: However, to the extent required by 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 provision that the non-waiver provisions of General Business Law, sections 687.4 and 687.5 be satisfied.
4. 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.
5. The following is added to end of the “Summary” section 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 rights conferred upon the franchisor or upon the franchisee by Article 33 of the General Business Law of the State of New York.
6. Franchise Questionnaires and Acknowledgements--No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.
7. Receipts--Any sale made must be in compliance with § 683(8) of the Franchise Sale Act (N.Y. Gen. Bus. L. § 680 et seq.), which describes the time period a Franchise Disclosure Document (offering prospectus) must be provided to a prospective franchisee before a sale may be made. New York law requires a franchisor to provide the Franchise Disclosure Document at the earlier of the first personal meeting, ten (10) business days before the execution of the franchise or other agreement, or the payment of any consideration that relates to the franchise relationship.

FOR THE STATE OF NORTH DAKOTA

1. ITEM 5 of the Disclosure Document is amended by the addition of the following language to the original language:

- Refund and cancellation provisions will be inapplicable to franchises operating under the North Dakota Franchise Investment Law, North Dakota Century Code Annotated Chapter 51-19, Sections 51-19-01 through 51-19-17. If Franchisor elects to cancel this Franchise Agreement, Franchisor will be entitled to a reasonable fee for its evaluation of you and related preparatory work performed and expenses actually incurred.

2. ITEM 17 of the Disclosure Document is amended to add the following:

- No general release shall be required as a condition of renewal and/or transfer which is intended to exclude claims arising under North Dakota Franchise Investment Law.
- In the case of any enforcement action, the prevailing party is entitled to recover all costs and expenses including attorneys' fees.
- The Franchise Agreement and Multi Unit Development Agreement are amended to state that the statute of limitations under North Dakota Law will apply.
- ITEMS 17(i) and 17 (q) are amended to state that covenants not to compete upon termination or expiration of the Franchise Agreement and/or the Area Development Agreement are generally unenforceable in the State of North Dakota except in limited instances as provided by law.
- ITEM 17(v) is amended to state a provision requiring litigation or arbitration to be conducted in a forum other than North Dakota is void with respect to claims under the North Dakota Franchise Investment Law.
- ITEM 17(w) is amended to state in the event of a conflict of laws, the North Dakota Franchise Investment Law will control.

FOR THE STATE OF RHODE ISLAND

ITEM 17 of the Disclosure Document is amended to add the following:

- The Rhode Island Franchise Investment Act, R.I. Gen. Law Ch. 395 Sec. 19-28.1-1 4 provides that a provision in a Franchise Agreement and/or the Area Development Agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under the Rhode Island Franchise Investment Act.
- Any general release as a condition of renewal or transfer will be void with respect to claims under the Rhode Island Franchise Investment Act.

FOR THE COMMONWEALTH OF VIRGINIA

In recognition of the restrictions contained in 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for Lee's Sandwiches International, Inc. for use in the Commonwealth of Virginia shall be amended as follows:

The following statements are added to ITEM 17(h):

- Under Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the Franchise Agreement and/or the Area Development Agreement does not constitute "reasonable cause", as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

FOR THE STATE OF WASHINGTON

ITEM 17 of the Disclosure Document is amended to add the following:

- 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.
- In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site shall 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.
- In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.
- A release or waiver of rights executed by a Franchisee may 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.
- Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.
- 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.
- 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.

FOR THE STATE OF WISCONSIN

ITEM 17 of the Disclosure Document is amended to add the following:

- The Wisconsin Fair Dealership Law Title XIV-A Ch. 135, Section 135.01-135.07 may affect the termination provision of the Franchise Agreement and/or the Area Development Agreement.

LEE'S SANDWICHES INTERNATIONAL, INC.
RENEWAL ADDENDUM TO THE FRANCHISE AGREEMENT
EXHIBIT J TO THE DISCLOSURE DOCUMENT

**RENEWAL ADDENDUM TO THE FRANCHISE AGREEMENT
LEE'S SANDWICHES INTERNATIONAL, INC.)
(FOR THE FIRST RENEWAL TERM)**

This is a Renewal Addendum (the "Addendum") to the Lee's Sandwiches® Franchise Agreement by and between Lee's Sandwiches International, Inc. ("Franchisor") and _____ ("Franchisee") of the same date (the "Franchise Agreement") for Franchisee's first (1st) renewal term. The Effective Date of the Franchise Agreement and this Addendum is _____ (the "Effective Date"). Capitalized terms in this Addendum have the same meanings as are given under the Franchise Agreement, unless otherwise provided in this Addendum.

WHEREAS, Franchisor and Franchisee have signed the Franchise Agreement to provide for Franchisee's continued operation of a Lee's Sandwiches® franchised business located at _____ for a successive, five (5) year term (the "Renewal Term"), which follows the expiration of the immediately preceding franchise agreement (the "Expiring Agreement");

NOW, THEREFORE, for and in consideration of the full performance of each of the promises, terms and conditions of this Addendum and of the General Release of Claims from Franchisee and related persons, the parties agree as follows:

1. FRANCHISE OBLIGATIONS MET AND RELATED FRANCHISE AGREEMENT CHANGES

A Renewal Obligations Fulfilled Under Expiring Agreement: Franchisee and Franchisor acknowledge and agree that each has met their respective renewal obligations under Section 4 of the Expiring Agreement and enter into this Addendum for the purpose of beginning the Renewal Term for a five (5) year period, as provided in Section 4.2 of the Expiring Agreement. As a result, both acknowledge and agree that:

- i. Franchisee obtained Franchisor's approval of a site, as required under Section 5.1 of the Expiring Agreement, and is operating the franchised business as of the Effective Date from such approved site;
- ii. Franchisor has already fulfilled its pre-opening obligations under Sections 2, 5, and 8 of the Franchise Agreement, including, but not limited to, having delivered, and Franchisee having successfully completed, the initial training program and received on site opening assistance and guidance; and
- iii. Franchisee previously received on loan from Franchisor a copy of the most current version of Lee's Sandwiches Manuals.

B. Changes to Franchise Agreement: Franchisee and Franchisor have entered into this Franchise Agreement as a Renewal Term and, as a result, both acknowledge and agree that:

i. Notwithstanding the provisions of Section 4.1 of the Franchise Agreement, the term of this Franchise Agreement is for a single five (5) year Renewal Term. The expiration date of this Franchise Agreement is the 5th anniversary of the Effective Date of this Franchise Agreement and Addendum, unless earlier terminated according to the terms of this Franchise Agreement. Upon the mutual execution of this Franchise Agreement and Addendum, Franchisee has only two (2) remaining successive five-year renewal terms available, subject to the terms and conditions of this Franchise Agreement.

ii) Section 11.1 regarding a grand opening advertising and promotion campaign is inapplicable to this Renewal Term.

iii) Section 3.1 regarding an initial Franchise Fee is inapplicable and no such fee is owed to Franchisor under this Addendum.

2. GUARANTY

Continuing Obligations: Each individual identified in Section 4 A., below, and undersigned as a "Guarantor" hereby ratifies and affirms the terms of any personal guaranty provided in connection with the Expiring Agreement, acknowledges the same as continuing in full force and effect and agrees to sign a new personal guaranty in connection with this Franchise Agreement and Addendum, if so requested by Franchisor.

3. FRANCHISEE REPRESENTATIONS

A. **Franchise Ownership:** Franchisee warrants and represents that the following individual(s) own 100% of all interests in Franchisee and Franchisee's Lee's Sandwiches Franchise and franchised business for the renewing location:

_____	_____%
Print Name	Ownership Percentage
_____	_____%
Print Name	Ownership Percentage
_____	_____%
Print Name	Ownership Percentage
	(Must total 100%)

B. **Disclosure Documents and Time for Counsel:** Franchisee warrants and represents that i) Franchisee received, read and understood Franchisor's Franchise Disclosure Document (with all exhibits), inclusive of the form Franchise Agreement, as well as a Renewal Term Addendum with General Release of Claims at least fourteen (14) calendar days before signing any binding agreement or paying any money for this Renewal Term (whichever happened first); ii) Franchisee received, read and understood the execution versions of the Franchise Agreement, as well as the Renewal Term Addendum with General Release of Claims; and iii) Franchisee had ample opportunity to review the same with counsel of Franchisee's choosing. Franchisee voluntarily chose at Franchisee's option to enter into this Franchise Agreement and Addendum, as well as the General Release of Claims attached hereto. Franchisee will continue to operate Franchisee's franchised business under the terms and conditions of this Franchise Agreement, inclusive of related amendments, exhibits and this Addendum.

4. FRANCHISEE RELEASE OF CLAIMS

In compliance with the renewal conditions required to be met by Franchisee under the Expiring Franchise Agreement, Franchisee will sign the general release of claims attached hereto concurrently with the execution of this Addendum.

5. ADDENDUM GOVERNS

Effect of Addendum: Except as expressly amended by this Addendum, the terms of the Franchise Agreement are in full force and effect. In the event of any conflict with, or inconsistency between, the provisions of the Franchise Agreement and the provisions of this Addendum, the provisions of this Addendum shall control.

6. EXTENSION OF EXPIRING FRANCHISE AGREEMENT

Renewal Delays: If the Expiring Franchise Agreement had already expired before the Effective Date of this Addendum, Franchisor and Franchisee hereby confirm that they extended, and have been prior to the Effective Date operating under, the terms of the Expiring Franchise Agreement and that the Expiring Franchise Agreement has been in full force and effect and governing their relationship up to the Effective Date, notwithstanding any delay in entering into a Renewal Term under this Franchise Agreement.

7. **CALIFORNIA FRANCHISE RELATIONS ACT CONTROLS.**

CFRA Controls in Event of Conflict: If the California Franchise Relations Act (CA. Bus. & Prof. Code §20020, et. seq.) applies to this renewal transaction and to the extent that the provisions of the Franchise Agreement are inconsistent with the California Franchise Relations Act, the terms of the statute will control and the applicable Section shall be modified only to the extent required to comply with such law.

8. **ENTIRE UNDERSTANDING**

A. **Complete Agreement:** This Addendum and the Franchise Agreement (and all exhibits, amendments, schedules and addenda to each of them) comprise the entire agreement between Franchisee and Franchisor with respect to the renewal of the Franchisee's Lee's Sandwiches Franchise at the location noted above.

B. All contemporaneous and prior discussions, negotiations and representations concerning this matter are superseded by this Addendum and the Franchise Agreement.

IN WITNESS WHEREOF, Franchisee and Franchisor both execute this Addendum to the Franchise Agreement as of the Effective Date stated above.

AGREED AND ACCEPTED:

LEE'S SANDWICHES INTERNATIONAL, INC.

Signed: _____

Print Name: _____

Title: _____

FRANCHISEE:

[if Franchisee is a Corporation, Limited Liability Company or Partnership]

(type/print company name)

Signed: _____

Print Name: _____

Title: _____

GUARANTOR(S)

Signed: _____

Print Name: _____

Signed: _____

Print Name: _____

[or, if FRANCHISEE is an individual(s)]

Signed: _____

Print Name: _____

Signed: _____

Print Name: _____

**GENERAL RELEASE OF CLAIMS
BY FRANCHISEE AND RELATED PERSONS**

GENERAL RELEASE

THIS GENERAL RELEASE ("RELEASE") is made and given on the effective date stated below by _____ ("RELEASOR"), a Lee's Sandwiches International, Inc. Franchisee and a individual/limited liability company/corporation/partnership with a principal address of _____, in consideration of the execution by Lee's Sandwiches International, Inc., a California corporation ("FRANCHISOR"), of a successor Franchise Agreement (the "Franchise Agreement") or other renewal documents renewing RELEASOR'S Lee's Sandwiches® franchise (the "Franchise") for the Lee's Sandwiches® unit located at _____, and for other good and valuable consideration, the adequacy of which is hereby acknowledged. If Franchisee is a corporation or limited liability company, "RELEASOR" shall be deemed to include Franchisee's owners, namely: _____ ("Owners").

1. General Release

RELEASOR, for itself, himself or herself, and if applicable, for Releasor's Affiliates, if any, and for each of their respective officers, directors, shareholders, owners, members, managers, trustees, partners, employees, agents, heirs, successors and assigns (Releasor and such other persons are collectively referred to as the "Releasing Parties") hereby release and forever discharge FRANCHISOR and FRANCHISOR'S Affiliates, and each of their respective officers, directors, shareholders, owners, members, managers, trustees, partners, employees, agents, heirs, successors and assigns, in their corporate and individual capacities (collectively the "Released Parties"), from any and all causes of action, at law or in equity, suits, debts, liens, defaults under contracts, leases, agreements or promises, liabilities, claims, demands, damages, losses, costs or expenses, of any nature whatsoever, howsoever arising, **known or unknown**, suspected or unsuspected, anticipated or unanticipated, fixed or contingent, past or present, that the Releasing Parties, or any of them, had, now have or may have, upon or by reason of any matter, cause or thing whatsoever from the beginning of time to the date of this RELEASE (the "Claims"), it being the intention of the parties that this RELEASE be unqualifiedly general in scope and effect and that any such Claims are hereby forever canceled and forgiven.

2. Waiver of Civil Code Section 1542

This Release is intended by Releasor to be a full and unconditional general release, as that phrase is used and commonly interpreted, and to constitute a full, unconditional and final accord and satisfaction, extending to Claims of any nature. Releasor, for itself, himself or herself, for each of the other Releasing Parties hereby expressly, voluntarily and knowingly waives, relinquishes and abandons each and every right, protection and benefit to which Releasor or any of the Releasing Parties would be entitled, now or at any time hereafter under Section 1542 of the Civil Code of the State of California, as well as under any other statutes or common law principles of similar effect to said Section 1542, whether now or hereinafter existing under the laws of California or any other applicable federal and state law with jurisdiction over the parties' relationship. Releasor, for itself, himself or herself, for each of the other Releasing Parties, acknowledges that Section 1542 of the Civil Code of the State of California provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS/HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT IF KNOWN BY HIM/HER WOULD HAVE MATERIALLY AFFECTED HIS/HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

RELEASOR, BEING AWARE OF THIS CODE SECTION, HEREBY VOLUNTARILY AND EXPRESSLY WAIVES ALL RIGHTS THEREUNDER. In making this waiver, RELEASOR acknowledges that claims or facts in

addition to or different from those which are now known or believed to exist with respect to the matters mentioned herein may later be discovered and that it is RELEASOR's intention to hereby fully and forever settle and release any and all matters, regardless of the possibility of later discovered claims or facts. This RELEASE is and shall be and remain a full, complete and unconditional general release. RELEASOR acknowledges and agrees that the foregoing waiver of Section 1542 is an essential, integral and material term of this RELEASE and that it he or she is entering into this Release after having had ample opportunity to review it with their attorney.

3. Dispute Resolution. Releasor agrees to be bound by the dispute resolution provisions attached as **Schedule A** to this Release, which are incorporated herein by this reference.

4. Release Not Admission. Releasor understands and agrees that the giving or acceptance of this Release and the agreements contained herein shall not constitute or be construed as an admission of any liability by Company or Company or an admission of the validity of any claims made by or against Company or Company.

5. Authority of Parties. Each person executing this Release on behalf of a party hereto warrants and represents that he or she is duly authorized to execute this Release on behalf of such party.

6. Independent Investigation. Releasor represents and warrants that Releasor has read and fully understand the terms and conditions of this Release and has had an opportunity to seek the advice of independent legal counsel before executing this Release.

7. No Prior Assignments. Releasor represents and warrants that Releasor has not previously assigned or transferred, or attempted to assign or transfer, to any third party any of the Claims which are the subject of this Release, all of such Claims being released.

8. Definitions. All capitalized terms used in this Release that are not defined in the body of this Release shall have the same meaning assigned to them in the Franchise Agreement, and the parties hereby incorporate those definitions by reference.

9. Further Assurances. Each party agrees to execute and deliver such additional documents and instruments and to perform such additional acts as may be necessary or appropriate to effectuate, carry out and perform the terms, provisions and conditions of this Agreement.

10. No Modifications. This General Release shall not be amended or modified unless such amendment or modification is in writing and is signed by RELEASOR and FRANCHISOR.

11. The release does not apply with respect to claims arising under the Washington Franchise Investment Protection Act, RCW 19.100, and the rules adopted thereunder.

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

RELEASOR:

Date: _____ (**"Effective Date"**)

(type/print company name)

Signed: _____

By: _____
(print signer's name)

Title: _____

Owners:

Signed: _____

Name printed: _____

Signed: _____

Name printed: _____

(or, if an **individual** is the RELEASOR)

Signed: _____

Name printed: _____

16. SCHEDULE A TO GENERAL RELEASE OF CLAIMS BY FRANCHISEE AND RELATED PERSONS

17. DISPUTE RESOLUTION

Choice of Law

Except to the extent of the applicability of the Federal Arbitration Act and related federal preemption requirements, this Agreement and all other matters concerning this Agreement and/or Franchisor (or any Franchisor Affiliate) and Releasor or Releasor owners, as applicable, their relationship and/or respective rights and obligations, will be governed by, and construed and enforced in accordance with, the laws of the state of California, without giving effect to any conflict of laws; PROVIDED, i) the provisions of the California Franchise Relations Act and the California Franchise Investment Law and any other California statute, regulation or law regarding franchise offers and sales, business opportunities, seller assisted marketing plans and/or franchise relationships shall not apply unless jurisdictional, definitional and other requirements thereof are met independently of this Section; and ii) the provisions of Sections 7.1 through 7.3, 18.2 and 18.3 shall be construed and enforced in accordance with the laws of the state where the claimed breach of such Section(s) occurs. The Federal Arbitration Act shall govern all matters subject to arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency.

Consent to Jurisdiction

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

Cumulative Rights and Remedies

No right or remedy conferred upon or reserved to Franchisor or Releasor by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be in addition to every other right or remedy. Nothing contained herein shall bar Franchisor's right to obtain injunctive relief against threatened conduct that may cause it loss or damages, including obtaining restraining orders and preliminary and permanent injunctions.

Limitations of Claims

To the fullest extent permitted by law, any claim concerning the Franchised Business or this Agreement or any related agreement will be barred unless an action for a claim is commenced within one (1) year from the date on which Releasor or Franchisor knew or should have known, in the exercise of reasonable diligence, of the facts giving rise to the claim. Neither party shall be able to toll this one (1) year time period based upon information known only to that party.

Limitation of Damages

Releasor and Franchisor each waive, to the fullest extent permitted by law, any right or claim for any punitive or exemplary damages against the other and agree that if there is a dispute with the other, each will be limited to the recovery of actual damages sustained by it including reasonable accounting and legal and expert fees

as provided in Section 23.4 of the Franchise Agreement. Releasor waives and disclaims any right to consequential damages in any action or claim against Franchisor concerning this Agreement or any related agreement. In any claim or action brought by Releasor against Franchisor concerning this Agreement, Releasor's contract damages shall not exceed and shall be limited to refund of Franchise Fee and Royalty Fees paid by Releasor.

Waiver of Jury Trial and Class Actions

RELEASOR AND FRANCHISOR EACH IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, WHETHER AT LAW OR EQUITY, BROUGHT BY EITHER OF THEM, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW.

ANY ARBITRATION OR OTHER LEGAL PROCEEDING BETWEEN FRANCHISOR OR ANY FRANCHISOR AFFILIATE AND RELEASOR OR ANY RELEASOR AFFILIATE OR OWNER SHALL BE BROUGHT AS AN INDIVIDUAL CLAIM AND SHALL NOT BE ARBITRATED OR LITIGATED ON A CLASS-WIDE, CLASS ACTION OR CONSOLIDATED BASIS, TO THE FULLEST EXTENT PERMITTED BY LAW.

Arbitration

This Agreement evidences a transaction involving commerce and, therefore, the Federal Arbitration Act, Title 9 of the United States Code is applicable to the subject matter contained herein. Except for controversies or claims relating to intellectual property rights, including, but not limited to, Franchisor's Marks, copyrights or the unauthorized use or disclosure of Franchisor's Confidential Information, covenants against competition and other claims for injunctive relief, all disputes arising out of or relating to this Agreement or to any other agreements between the parties, or with regard to interpretation, formation or breach of this or any other agreement between the parties, shall be settled by binding arbitration conducted in Santa Clara County, California, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. The proceedings will be held by a single arbitrator agreed upon by the parties or otherwise appointed by the Circuit Court for the State of California and located in Santa Clara County, California. The decision of the arbitrator will be final and binding upon the parties. Judgment upon the award rendered by the arbitrator may be entered in any court having personal and subject matter jurisdiction.

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

LEE'S SANDWICHES INTERNATIONAL, INC.

RECEIPT OF FRANCHISE-RELATED DOCUMENTS

EXHIBIT K TO THE DISCLOSURE DOCUMENT

RECEIPT OF FRANCHISE-RELATED DOCUMENTS

The undersigned, personally and as an officer or managing member of the proposed franchisee, does hereby acknowledge receipt of the following documents, in form for execution:

- ☐ (1) Franchise Agreement
- ☐ (2) Area Development Agreement
- ☐ (3) List any other documents here: _____

(Proposed franchisee must initial the box next to the applicable documents.)

I further acknowledge my understanding that it is my responsibility, individually and as an officer or managing member of the proposed franchisee, to review all such documents, so that I am fully familiar with the transaction contemplated before signing any binding agreement.

All representations requiring franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

DATED: _____

THE LAW REQUIRES THAT WE PROVIDE YOU WITH THE FRANCHISE-RELATED DOCUMENTS NOTED ABOVE AT LEAST SEVEN (7) CALENDAR DAYS PRIOR TO THE DATE THEY ARE TO BE EXECUTED. PLEASE DO NOT SIGN OR RETURN THESE DOCUMENTS UNTIL AT LEAST SEVEN (7) CALENDAR DAYS HAVE ELAPSED FROM THE DATE OF THIS RECEIPT.

_____,
Individually and as an officer/managing member of

(_____, corporation)

(_____, limited liability company)

LEE'S SANDWICHES INTERNATIONAL, INC.

STATE EFFECTIVE DATES

EXHIBIT L TO THE DISCLOSURE DOCUMENT

EXHIBIT L
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, 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	May 22, 2023
Hawaii	May 11, 2023
Illinois	Renewal Pending
Maryland	Renewal Pending
Michigan	December 20, 2022
Minnesota	June 8, 2023
New York	Renewal Pending
Virginia	May 16, 2023
Washington	June 16, 2023

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

This Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If Lee's Sandwiches International, Inc., offers you a franchise, Lee's Sandwiches International, Inc., must provide this Disclosure Document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale. New York law requires a franchisor to provide the franchise Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If Lee's Sandwiches International, Inc., does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the State Administrator listed in Exhibit A.

The following are the names, principal business addresses and telephone numbers of each franchise seller offering the franchise. Franchisor will check the name of the person who offered the franchise.

Chieu Van Le, 660 E. Gish Road, San Jose, California 95112, (408) 275-0700	☐
Yen Ngoc Quach, 660 E. Gish Road, San Jose, California 95112, (408) 275-0700	☐
Tom Thanh Quach, 7180 Lampson Avenue, Garden Grove, California 92841, (714) 333-8688	☐
Jimmy M. Le, 660 E Gish Road San Jose, California 95112, (408) 27-0700	☐

The issuance date of this Franchise Disclosure Document is April 18, 2023.

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

I received a Franchise Disclosure Document dated April 18, 2023* that included the following exhibits on the date listed below:

- A. List of State Administrators
- B. List of State Agents for Service of Process
- C. Franchise Agreement
 - 1. General Release
 - 2. Nondisclosure and Non-Competition Agreement
 - 3. Unlimited Guaranty and Assumption of Obligations
 - 4. Holders of Legal or Beneficial Interest in Franchisee; Officers, Directors
 - 5. Collateral Assignment of Lease
 - 6. Multi-State Addenda to the Franchise Agreement
- D. Table of Contents of Confidential Operations Manual
- E. Area Development Agreement
 - a. Development Schedule
 - b. Unlimited Guaranty and Assumption of Obligations
 - c. Holders of Legal or Beneficial Interest In Developer; Officers, Directors, Managers and Trustees
 - d. Multi-State Addenda to the Area Development Agreement
- F. Financial Statements
- G. Lists of Current, Former Franchisees and Affiliate Owned Locations as of 12/31/22
- H. Franchisee Disclosure Questionnaire
- I. Multi-State Addenda to the Disclosure Document
- J. Renewal Addendum to the Franchise Agreement
- K. Receipt of Franchise Related Documents
- L. State Effective Dates

Please sign and print your name below, date and return one copy of this receipt to Lee's Sandwiches International, Inc. and keep the other for your records.

Date

Print Name

Signature

Return to:

(individually or as an officer, member or partner of)

Lee's Sandwiches International, Inc.
660 E. Gish Road
San Jose, California 95112

(Name of corporation, limited liability company or partnership)

a _____ corporation
(State of incorporation)

a _____ limited liability company
(State of organization)

a _____ partnership
(State where partnership formed)

*The effective date of this Disclosure Document may be different in your state. Please refer to the Exhibit L of this Disclosure Document for a list of effective dates.

RECEIPT

This Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If Lee's Sandwiches International, Inc., offers you a franchise, Lee's Sandwiches International, Inc., must provide this Disclosure Document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale. New York law requires a franchisor to provide the franchise Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

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- L. State Effective Dates

Please sign and print your name below, date and return one copy of this receipt to Lee's Sandwiches International, Inc. and keep the other for your records.

Date

Print Name

Signature

Return to:

(individually or as an officer, member or partner of)

Lee's Sandwiches International, Inc.
660 E. Gish Road
San Jose, California 95112

(Name of corporation, limited liability company or partnership)

a _____ corporation

(State of incorporation)

a _____ limited liability company

(State of organization)

a _____ partnership

(State where partnership formed)

*The effective date of this Disclosure Document may be different in your state. Please refer to Exhibit L of this Disclosure Document for a list of effective dates.