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FRANCHISE DISCLOSURE DOCUMENT

FOR

MACCHIATO GROUP, INC
a California corporation

FRANCHISE DISCLOSURE DOCUMENT

MACCHIATO GROUP, INC
a California corporation
15838 Halliburton Road
Hacienda Heights, CA 91745
(626) 872-1351
www.gotmacchiato.com

We offer franchises for the operation of Macchiato Cafes offering delicious coffee and beverage items, as well as light snack and dessert items and other related products and services

The total estimated investment necessary to begin operation of a single-unit Macchiato Café franchise ranges from \$266,500-\$456,000. This includes a \$35,000 initial franchise fee that must be paid to us, the Franchisor.

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 Macchiato Group, Inc. at the address and telephone number provided in this page.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully and thoroughly. 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.

Information about comparisons of franchisors is available. Call the state administrators listed in Exhibit A or your public library for sources of information.

Registration of this franchise with the state does not mean that the state recommends it or has verified the information in this Disclosure Document. If you learn that anything in this Disclosure Document is untrue, contact the Federal Trade Commission and the state administrators listed in Exhibit A.

Date of Issuance October 18, 2018

STATE COVER PAGE

Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling in your state. REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT

Call the state franchise administrator listed in Exhibit A for information about the franchisor, or about franchising in your state

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

Please consider the following RISK FACTORS before you buy this franchise

- 1 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 STATES THAT CALIFORNIA LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS
- 3 YOUR BUSINESS WILL BE AFFECTED BY CHANGES IN CONSUMER TASTES, DEMOGRAPHIC PATTERNS, CHARACTER OF THE AREA WHERE YOUR STORE IS LOCATED, WEATHER, COMPETITION, INFLATION, FOOD COSTS, COST OF MOTOR FUELS, GOVERNMENT REGULATIONS LIKE REQUIRED DISCLOSURE OF NUTRITIONAL INFORMATION, PUBLIC ATTENTION TO INGREDIENTS, HEALTH AND NUTRITION CONCERNS, HEALTH CODES, ZONING, ENVIRONMENT CONCERNS, WAGE AND PRICE CONTROLS, EMPLOYMENT AND WAGE LEVELS, AND OTHER OPERATING COSTS
- 4 FRANCHISOR HAS THE RIGHT TO TERMINATE THE FRANCHISE AGREEMENT IF FRANCHISEE CANNOT FIND A SUITABLE SITE WITHIN 12 MONTHS (OR 18 MONTHS IF YOU REQUEST AND RECEIVE AN EXTENSION) FROM SIGNING THE FRANCHISE AGREEMENT

- 5 YOU WILL NOT RECEIVE AN EXCLUSIVE TERRITORY YOU MAY FACE COMPETITION FROM OTHER FRANCHISEES, FROM OUTLETS THAT WE OWN, OR FROM OTHER CHANNELS OF DISTRIBUTION OR COMPETITIVE BRANDS THAT WE CONTROL
- 6 FRANCHISEES AND SPOUSES MUST ALSO SIGN A PERSONAL GUARANTEE, MAKING YOUR SPOUSE INDIVIDUALLY LIABLE FOR YOUR FINANCIAL OBLIGATIONS UNDER THE AGREEMENT IF YOU ARE MARRIED THE GUARANTEE WILL PLACE YOUR AND YOUR SPOUSE'S MARITAL AND PERSONAL ASSETS AT RISK IF YOUR FRANCHISE FAILS
- 7 THE FRANCHISOR IS A DEVELOPMENT STAGE COMPANY WITH LIMITED FRANCHISE OPERATING HISTORY
- 8 THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE

We may use the services of one or more franchise brokers, sales agents or referral sources to assist us in selling our franchise A franchise broker, sales agent or referral source represents us, not you We pay this person a fee for selling our franchise or referring you to us You should be sure to do your own investigation of the franchise

Effective Date

California

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Exhibit A – State Administrators/Agents for Service of Process
Exhibit B – State Specific Addendum
Exhibit C – Franchise Agreement and its exhibits
Exhibit D – Table of Contents of Confidential Operating Manual
Exhibit E – List of Current Franchisees
Exhibit F – Financial Information

RECEIPT

ITEM 1

THE FRANCHISOR AND ANY PARENTS PREDECESSORS AND AFFILIATES

A Terms

To simplify the language in this Disclosure Document, "we" or "us" means Macchiato Group, Inc., the Franchisor. "You" means the person that buys the franchise. If a corporation, partnership or other entity buys the franchise, "you" refers collectively to all persons who own an interest in the entity. "Macchiato Cafe" means the Cafe we license you to operate. "Single unit franchise" means the right to own and operate one Macchiato Cafe.

B Our Business

We are in the business of selling franchises for a coffee, tea and dessert cafe operating under the name of "MACCHIATO" and related marks. A Macchiato Cafe ("Cafe") specializes in the preparation and sale of certain coffee, tea, other beverages and light food items and related products and services, located at locations approved by us, such as in strip shopping centers, shopping malls, and free-standing units.

We are a franchising company which promotes and sells franchises for the operation of Macchiato Cafes. We have not offered franchises and have not conducted business in any other line of business.

C We, Our Parents Predecessors and Affiliates

We are a California corporation formed on September 22, 2017. Our principal business address is 15838 Halliburton Road, Hacienda Heights, CA 91745. We do business under our corporate name "Macchiato Group" and our brand name "Macchiato". We do not do business under any other name. We have not offered franchises for any other line of business. This is our first offering of franchises.

We have no predecessors, but we have two (2) affiliates. Our first affiliate, through common ownership, is Macchiato, Inc., a California corporation, with its principal place of business at 141 N Atlantic Blvd., Suite 110, Monterey Park, CA 91754. Macchiato, Inc. owns and operates one Macchiato Cafe, of the type being franchised, in Monterey Park since September 2012. Macchiato, Inc. has never offered or intends to offer any franchises, nor has it offered franchises in any other line of business. Macchiato, Inc. is not an approved supplier of any product or service that you must purchase.

Our second affiliate, through common ownership, is The Bleu House, Inc., a California corporation, with its principal place of business at 15840 Halliburton Road, Hacienda Heights, CA 91745. The Bleu House, Inc. owns and operates one Macchiato Cafe, of the type being franchised, in Hacienda Heights, since May 2018. The Bleu House, Inc. has never offered or intends to offer any franchises, nor has it offered franchises in any other line of business. The Bleu House, Inc. is not an approved supplier of any product or service that you must purchase.

D Special Industry Regulation

You must comply with laws and regulations that apply to businesses generally, and also specifically to restaurants, cafes and businesses serving food and beverages. Generally, applicable laws and regulations include tax rules, labor and employment laws, business license requirements, laws on construction of business premises, zoning rules, requirements for parking and access, the Americans with Disabilities Act, export control laws pertaining to technology, and laws on storage, preparation,

packaging, labeling and sale of food to the public

Federal and state laws affecting businesses generally include smoking restrictions, public posting of notices re health hazards (e g , tobacco smoke or other carcinogens), fire safety and emergency preparedness laws, rules on use, storage and disposal of waste, insecticides and other hazardous materials, environmental laws that may impact the operation of restaurants (like laws on recycling and regulating the use of certain types of containers and materials potentially harmful to the environment), and standards regarding sanitation, employee health and safety. Some areas have or are considering proposals to regulate indoor air quality. Many places have laws against smoking inside restaurants. Additionally, California local county health departments inspect restaurants and other retail food facilities to ensure compliance with safe food handling practices and adequacy of kitchen facilities.

You should independently research and review with your own attorney all general laws in evaluating the franchise before you sign any binding documents or make any investments.

E Competition and the Market

The market for restaurants and food services is extremely well established. You will be in competition with a variety of quick-service shops, full-service restaurants and cafes and other dining establishments. The cafe and restaurant business is highly competitive with respect to concept, price, location, quality and service. The business is often affected by economic and real estate conditions, political conditions, consumer tastes, trends, weather, population changes, the cost and availability of products and qualified labor and traffic patterns. Restaurants and cafes compete in each market with national and regional restaurant chains and locally-owned restaurants, some of which operate more shops and have longer operating histories than our cafes. There also is active competition for suitable commercial real estate sites and personnel, including management personnel. You are advised to investigate and research the retail food service market as well as the laws, regulations and ordinances applicable to your franchised business further.

F Agent for Service of Process

Our agent for service of process in this state is listed in Exhibit A.

ITEM 2

BUSINESS EXPERIENCE

President and Chief Executive Officer Jason Tsai

Jason Tsai has been serving as the President and CEO of our company since its formation in September 2017. Mr. Tsai has also been serving as the President and CEO of our affiliates since their formation in September 2012 and May 2018. Mr. Tsai also owns and operates an Asian fusion restaurant called Next Republic Kitchen in Alhambra since its opening in December 2016.

Chief Financial Officer and Secretary Emily Lien

Emily Lien has been our Chief Financial Officer and Secretary of our company since its formation in September 2017. Ms. Lien has also been serving as the Store Manager, C F O and Secretary for the Macchiato Cafes owned and operated by our affiliates since their formation in September 2012 and May 2018.

ITEM 3
LITIGATION

No litigation is required to be disclosed in this Item

ITEM 4
BANKRUPTCY

No bankruptcies are required to be disclosed in this Item

ITEM 5
INITIAL FEES

A. Franchise Fee

The initial franchisee fee for a single Franchised Business is \$35,000 ("Initial Franchise Fee") payable at the time you sign the Franchise Agreement (see Exhibit C). The Initial Franchise Fee must be paid in a lump sum when you sign the Franchise Agreement and is non-refundable. The only exception to our no-refund policy of the Initial Franchise Fee is if you notify us in writing of your intent to terminate prior to our review of your proposed site, in which case we can terminate the franchise agreement and refund \$10,000 of the Initial Franchise Fee to you. The Initial Franchise Fee is payable by all franchisees who buy a Macchiato Café. We use the Initial Franchise Fee to cover the costs of evaluating your proposed site, training you and your employees, administrative overhead, enforcement and protection of our Marks and the System, and helping you to develop and open your Macchiato Café.

We may offer to waive the Franchise Fee or reduce it under certain circumstances. We also may offer to waive or reduce the Franchise Fee, for the following reasons: (i) as an inducement for existing franchisees to open additional Cafés, (ii) as an inducement for someone to take over an operating franchised Café, (iii) as an inducement for a multi-unit franchisee to open several Cafés, or (iv) to allow a franchisee to have additional money to spend on store development, improvements and/or marketing during the first 12 months of operation. We will make the decision on the amount of any waiver or reduction on an individual basis depending on the condition of the premises, the need for upgrades and remodeling, the need for special incentives and/or other considerations. In certain rare circumstances, we may permit installment payments of the Initial Franchise Fee on terms negotiated with the franchisee, but which terms shall be no more than one year in duration and be interest-free. Upon request by potential franchisees, we will keep open our records with respect to the reduced fees for inspection.

Except as provided above or in this Disclosure Document, we will not refund any part of the Initial Franchise Fee paid under the Franchise Agreement.

B Application Process

When you apply, we ask for preliminary financial and biographic information, which you are required to furnish accurately and completely. We evaluate your application and decide if more discussion with you may be productive. We will provide you with a copy of this Disclosure Document at least 14 days before you sign the Franchise Agreement or pay the Initial Franchise Fee. We have no obligation to sell you a Macchiato Franchise, and may refuse to sell you a Macchiato Franchise or withdraw our acceptance of your application any time before you sign the Franchise Agreement and pay the Initial Franchise Fee.

ITEM 6

OTHER FEES

Type of fee	Amount	Due Date	Remarks
Royalty Fee	5% of Gross Sales	Payable on or before 7th day of each month based on Gross Sales during the prior calendar month We require payment by electronic funds transfer ("EFT")	See Note 2 for the definition of Gross Sales
Marketing Fee	2% of Gross Sales	Same as Royalty Fee	This fee is due and payable at the same time and in the same manner as Royalty Fee We may change at any time at our discretion the amount of the Marketing Fee on 30 days written notice
Local Advertising Fee	2% of Gross Sales	As incurred	You must spend the Local Advertising Fee on approved marketing material in your Territory every month
Training of Additional Personnel (More than 4) and Each Replacement Manager	Currently \$100 per hour per instructor, plus travel and lodging expenses, amount is based on current rate and subject to change	Before start of training	You must pay training fees for any additional training requested by you or training for Replacement Managers Also see Note 3
Renewal Fee	\$15,000	Within 30 days of the date when you give notice of your exercise or renewal option, which must be at least 12 months before	You will only need to pay this fee if you renew the Franchise Agreement

		expiration of the current term	
Transfer Fee	\$3,500	At least 30 days before transfer	Franchise Agreement defines what events constitute "transfer" requiring payment of a fee
Alternative Supplier Testing Fee	Based on our actual cost	When approval of an alternate supplier is requested by you	This covers the costs of testing new products or inspecting new suppliers you propose
Audit	Cost of inspection or audit	On receipt of invoice	You reimburse us for the full cost of the audit if audit discloses understating Cafe Gross Sales by 2% or more
Late Payment	Late charge equal to 5% of payment due, together with interest at 2% per month (not to exceed highest legal rate)	On receipt of invoice	Interest is payable on entire overdue amount beginning with the date payment is due until payment, late charge and interest is paid in full Also see Note 4
Dishonored Item Fee	\$75 plus reimbursement of charge a financial or other institution imposes on us, for each dishonored or unsuccessful check, ACH debit, electronic funds transfer, credit or wire transfer or other form of payment that in any way is not honored or completed	On notice following a dishonor or other incompleteness of a payment instrument or debit or other payment procedure	You reimburse the amount we are charged by our financial institution, and you pay us \$75 to compensate our time and administrative attention to the dishonored item
Re-inspection Fee	\$500 per re-inspection, plus out of pocket expenses	As incurred	If any inspection indicates any deficiency or unsatisfactory condition which requires a re-inspection, you shall pay us, upon demand, the sum of \$500 for each re-inspection of the Franchised Café and shall in addition, reimburse us for out of pocket expenses for the re-inspection, including for

			transportation costs, food, lodging and similar costs
Indemnification	Will vary under circumstances	As incurred	You reimburse losses we suffer from the operation of your business
Costs and Attorneys' Fees	Will vary under circumstances	As incurred	Awarded to prevailing party if you and we are involved in any legal claim

NOTE 1 All fees are payable to us and are non-refundable. At this time, we impose fees uniformly, unless otherwise indicated. However, we retain discretion to reduce fees in individual cases in our discretion.

NOTE 2 "Gross Sales" means all sales you make from the operation of your Macchiato Cafe, including but not limited to, sales from delivery services (including without limitation, Uber Eats, Postmates, Eat24, and Door Dash) and the retail value of all food and other merchandise of any kind sold through coupon redemption or otherwise given away for which reduced or no cash is received except sales taxes. Gross Sales also includes any amount received from business insurance proceeds. The Franchise Agreements requires payment by electronic funds transfer ("EFT").

NOTE 3 We conduct initial training in Hacienda Heights, California where our headquarters is currently located or at an alternate location in the United States that we specify from time to time.

NOTE 4 The highest interest rate allowed by law in California is 10% annually.

ITEM 7

ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount	Method of Payment	When Due	To Whom Payment Made
Initial Franchise Fee (1)	\$35,000	Lump sum	At signing of Franchise Agreement	Franchisor
Real Estate Security/ Deposits and Initial Rent (2)	\$9,000 \$18,000	As arranged	When Incurred	Landlord/ Mortgagee
Construction, Design and remodeling (3)	\$150,000 \$250,000	As arranged	When Incurred	Suppliers / Approved Architect
Equipment and Fixtures	\$50,000 \$100,000	As arranged	When Incurred	Franchisor and Suppliers
Opening Inventory (4)	\$3,000 \$6,000	As arranged	When Incurred	Suppliers and Franchisor

Insurance (5)	\$3 000 \$6 000	As arranged	When Incurred	Insurance Provider
Opening Promotion	\$5 000	As arranged	When Incurred	Suppliers
Cash Registers/Other Office Equipment (6)	\$500 \$1,000	As arranged	When Incurred	Suppliers
Business Licenses, Utility Deposits, Prepaid Fees (7)	\$1,000 \$5,000	As arranged	When Incurred	Government and agencies
Additional Funds – 3 months (8)	\$10 000 \$30,000	As arranged	When Incurred	Employees and Suppliers etc
TOTAL BASIC PACKAGE	\$266,500 \$456,000			

1 The Initial Franchise Fee is non refundable unless otherwise specified All other fees are also non refundable

2 A Macchiato Cafe occupies approximately 1,500 to 2 000 square feet of space The terms of the lease and the amount of the monthly lease payment and security deposit will likely depend on the geographic location and size and condition of the premises and the demand for the premises by other prospective tenants These recurring overhead costs cannot be estimated You will lease space from the owner of the mall or retail center on terms negotiated and decided by you and the owner The lower figure contemplates a security deposit equal to one month's rent and the higher figure contemplates a security deposit equal to two months

3 Construction and remodeling costs vary significantly depending on the condition location size and configuration of the Cafe premises the layout of the mall or retail center and other factors relating to the geographic location of the business suppliers government regulations labor costs and other considerations You will contract directly with the architect construction contractor and possibly other construction suppliers on terms negotiated by you

4 This includes food and beverage products paper products, utensils cleaning supplies and printing and other supplies including without limitation uniforms

5 You must obtain and maintain certain types and amounts of insurance Insurance costs depend on policy limits type of policies nature and value of physical assets gross revenue the number of employees square footage location business contents, and other factors bearing on risk exposure Each insurance policy must name us and our Affiliates as additional named insureds will contain a waiver of subrogation rights against us and our Affiliates and any successors and assigns and must provide for 30 days prior written notice to us of any material modifications, cancellation, or expiration of the policies See Item 8 for details

6 This includes POS system printer computer, and other office equipment

7 This category includes an estimate of security deposits utility deposits telephone services, food service licenses and other prepaid fees that you will be required to pay

8 Beginning with our first Macchiato Café which opened in 2012 we have relied on our experiences in developing and operating the Cafes to compile these estimates This item estimates your initial start up expenses (other than the items identified separately in the table) These expenses include payroll costs but not any draw or salary for you These figures are estimates, and we cannot guarantee that you will not have additional expenses starting the business Your costs depend on how much you follow our methods and procedures your management skill experience and business acumen, local economic conditions the local market for your products and services the prevailing wage rate competition and the sales level reached during the initial period We do not provide direct or indirect financing to our franchisees

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

A. Specifications and Operations

The goal of uniform operations is part of the Macchiato System. To achieve this, our Operations Manual contains mandatory specifications pertaining to all aspects of Cafe operations.

We have specifications for all food and beverage products sold at Macchiato Cafes, coffee machines and cooking equipment, food preparation methods, recipes and ingredients. We state all specifications, and we will identify designated suppliers in the Operations Manual, where applicable. We may revise the specifications and designated suppliers through written bulletins or supplements to the Operations Manual at any time.

The source for almost all of your purchases is restricted in some way. Further, we negotiate purchase agreements with suppliers for the benefit of our franchisees. The following table summarizes the approximate percentage of your purchase of goods and services through sourcing restrictions.

Required Purchases From Us or Our Affiliates	Required Purchases from Designated Suppliers	Required Purchases In Accordance with Our Specifications
30-40%	0-10%	60-70%

After you sign the Franchise Agreement, we will furnish you a list of designated and recommended suppliers. Except for items we identify by designated supplier, you may purchase all goods, services, equipment, supplies, fixtures, furnishings and inventory that we require you to have to operate your Macchiato Cafe from any supplier.

B. Obligations to Purchase Items and Services from Designated Suppliers

You must operate the Cafe according to our System Standards, which regulates, among other things, the types, models and brands of fixtures, furniture, equipment (including a required or recommended computer, facsimile machine, and point of sale information system), furnishings and signs (collectively, "System Assets"), Proprietary Products, Branded Products, and other food products, and supplies required for the Cafe.

In the case of Proprietary Products and Branded Products, which include items and materials that utilize our proprietary recipes and sauces and other intellectual property belonging to us or our Parent or Affiliates and that are packaged under the Marks, suppliers will be limited to us, our affiliates and/or other specified exclusive sources designated by us (collectively "Designated Suppliers"), and you must buy those products and services only from the Designated Suppliers. We restrict your sources of Proprietary Products and Branded Products and related services in order to protect our trade secrets and know-how, assure a reliable supply of products that meet our standards, achieve better terms of purchase and delivery service, control usage of the Marks by third parties, and monitor the manufacture, packaging, processing, and sale of these items. In the case of System Assets items other than Proprietary Products and Branded Products, suppliers could, at our option, be limited to Designated Suppliers or from our list of specified exclusive suppliers, in which you would have to buy such other items only from those sources. We have the absolute right to limit the suppliers with whom you may deal. We will identify all Designated Suppliers and respective products and services in the Operations Manual or other written communications. In addition to the Proprietary Products and Branded Products, you currently must buy all of your Cafe's equipment requirements from our Designated Suppliers to maintain the quality of the goods, products and services that Macchiato Cafes sell to the customers.

C. Procedure for Approving Alternate Suppliers

If we institute any type of restrictive sourcing program (which, as noted above, we will do for Proprietary Products, Branded Products, and the Cafe's equipment and may do for other items), and you want to use any item or service that we have not yet evaluated or to buy or lease from a supplier that we have not yet approved or designated, you first must send us sufficient information, specifications, and samples so that we can determine whether the item or service complies with System Standards or the supplier meets approved supplier criteria. We may charge you or the supplier a reasonable fee for the evaluation and will notify you of decision to approve or deny the proposed supplier within 30 days after we receive all requested information and complete the required testing. We periodically will establish procedures for your requests and may limit the number of approved items, services, and/or suppliers as we think appropriate.

Supplier approval will depend on product quality, delivery frequency and reliability, service standards, financial capability, customer relations, concentration of purchases with limited suppliers to obtain better prices and service, and/or a supplier's willingness to pay us and/or our system for the right to do business with our system. Supplier approval may be temporary until we evaluate the supplier in more detail. We may inspect a proposed supplier's facilities during and after the approval process to make sure that the supplier meets our standards. If it does not, we may revoke our approval by notifying the supplier and you in writing. We have no obligation to approve any request for a new supplier, product or service.

D Payments and Other Consideration from Approved or Designated Supplies

We and our affiliates have the right to receive payments or other considerations from our approved suppliers on account of their dealings with you and other franchise owners and to use all amounts that we and our affiliates receive without restrictions (unless we and our affiliates agree otherwise with the supplier) for any purposes we and our affiliates deem appropriate. You will not be entitled to receive any portion of these payments or considerations. Presently, there are no such considerations paid to us from any Designated Suppliers of services or products, and we have no revenues derived from such payments or from any sale or lease of any products and services directly to franchisees. We are not affiliated with any currently approved or Designated Suppliers.

We may also receive revenue from certain third party suppliers we designate or from those we approve as optional suppliers on account of the suppliers transactions with our franchisees or affiliates that own Macchiato Cafes. We also may receive revenue on account of our direct sales transactions with franchisees.

We may receive rebates from suppliers from whom we or you make purchases for our or your operation of Macchiato Cafes. We retain these benefits. Likewise, if you receive a rebate directly from a designated, recommended or approved supplier, you may retain it. Our rebate or purchase programs may vary depending on the supplier and the nature of the product or service.

We have the right to collect and retain any and all promotional allowances, rebates, incentive payments or material non-cash benefits ("Allowances") offered by manufacturers, suppliers, and distributors to you, to us, or to our affiliates, on account of transactions with Macchiato Franchisees. We or our affiliates will have all of your right, title, and interest in and to any and all of these Allowances. We or our affiliates may collect and retain any or all of these Allowances without restriction. If we contribute any such Allowances from approved suppliers to the advertising and marketing fund, it does not reduce or eliminate your obligation to pay the Marketing Fee.

We do not provide material benefits to you based on your purchase of particular products or services or use of particular suppliers. No other purchasing arrangements exist at this time. We will notify you of changes we make to our purchasing programs and any new purchasing arrangements that we offer franchisees.

by written bulletins or supplements to the Operations Manual

E Insurance

Before opening your Macchiato Cafe you must purchase and throughout the term maintain insurance policies meeting our specifications which we provide to you after you sign the Franchise Agreement. At this time, we require at a minimum (i) comprehensive general liability insurance with a limit of Two Million Dollars (\$2,000,000) combined single limit (including broad form contractual liability), (ii) workers compensation insurance as required by law, (iii) general casualty insurance for the full replacement value of the Macchiato Cafe and its contents, (iv) Builder's All Risk insurance during construction and renovation work, and (v) any additional insurance required by law. We may modify our minimum insurance requirements, establish and change deductible limits, and require you to carry additional forms of insurance on reasonable written notice. Premiums depend on the insurance carrier's charges, terms of payment and your history. All insurance policies must name us as additional insured party.

F Stopping Sales and/or Deliveries

We can stop selling and/or delivering any or all goods and/or services to you if any payment is past due more than 14 days. This may impact your operation because our decision to stop selling and/or delivering goods does not excuse you from the obligation to comply with the Franchise Agreement and all aspects of our system, and does not modify our other remedies for your breach and/or failure to comply. Our decision to stop delivering goods or providing services constitutes a constructive termination of your franchise agreement. In such event, we will comply with the termination requirements under the California Franchise Relations Act ("CFRA"), which requires that a franchisee receive written notice of nonpayment and a five-day cure period after such notice before termination.

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	Article/Section in Franchise Agreement	Item(s) in Disclosure Document
a	Site selection and acquisition/lease	Sections II and VII	6, 7, 11
b	Pre-opening purchases/ leases	Sections II, VII, VIII and IX	7, 8, 11
c	Site development and other pre-opening requirements	Sections II, VII, VIII and IX	7, 8, 11
d	Initial and ongoing training	Sections II, IV, VI and XX	7, 11
e	Opening	Sections II, VI and VII	11

Obligation	Article/Section in Franchise Agreement	Item(s) in Disclosure Document
f Fees	Sections V, VIII, IX, XI and XX	5, 6, 7, 11
g Compliance with standards and policies/Operating Manual	Sections IV, VIII, XI and XV	8, 11, 16
h Trademarks and proprietary information	Sections III, VIII and XI	13, 14
i Restrictions on products/services offered	Sections VII	8, 16
j Warranty and customer service requirements	None	None
k Territorial development and sales quotas	None	None
l Ongoing product/service purchases	Section VIII	8, 16
m Maintenance, appearance and remodeling requirements	Sections VIII and XV	11
n Insurance	Section XII	7
o Advertising	Section IX	6, 7, 11
p Indemnification	Section XIII	6
q Owner's participation/management/staffing	Sections VIII and XIX	15
r Records/reports	Section X	6
s Inspection/audits	Sections VII and X	6, 11
t Transfer	Section XX	6, 17
u Renewal	Section IX	6, 17
v Post-termination obligations	Section XVIII	17
w Non-competition covenants	Section XIV	17
x Dispute resolution	Section XXX	17

ITEM 10

FINANCING

We do not provide, directly or indirectly, any financing to you. We are unable to estimate whether you will be able to obtain financing for any or all of your investment and, if so, the terms of financing. We do not guarantee your notes, leases or other obligations.

ITEM 11

FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

Except as disclosed, we need not provide you with any assistance

A. Pre-Opening

1 Give you our site selection criteria for the Café. The site must meet our criteria for demographic characteristics, traffic patterns, parking, character of neighborhood, competition from and proximity to other businesses, the nature of other businesses in proximity to the site and other commercial characteristics, and the size, appearance and other physical characteristics of the proposed site. We will accept or deny a location you propose for the Café within 30 days after we receive the complete site report and other materials we request. We do not guarantee the success of any site or any lease.

2 Our representative will assist you with the purchase of equipment, signs, fixtures and opening inventory and supplies, but we will not install these items. We will assist you in setting up accounts with approved suppliers who are familiar with our specifications and will provide you a copy of such specifications.

3 Give you mandatory and suggested specifications and layouts for your Café, including requirements for dimensions, design, image, interior layout, decor, fixtures, equipment, signs, furnishings and color scheme.

4 Train you and your manager. This training is described in detail below in this Item.

5 We will loan you a copy of (or provide you electronic access to) our Confidential Operations Manual, containing the uniformed standards, specifications and other requirements for operation of your Café.

6 We will provide assistance and guidance on your initial opening of the Café, including dispatching of our representative to help with the opening.

B. After Opening

1 We will provide guidance and advice to you regarding operating issues concerning the Café disclosed by reports you submit or inspections we make.

2 We will give you guidance on standards, specifications and operating procedures and methods used by other Macchiato Cafés in the System, new recipe items, menu variations, food preparation and display methods, purchasing required fixtures, furnishings, equipment, signs, products, materials and supplies, advertising and marketing programs, employee training, and administrative, bookkeeping and accounting procedures. This guidance will, at our discretion, be furnished in our Operations Manual, bulletins or other written materials and/or during telephone consultations.

3 We will review and approve or disapprove of proposed advertising materials prepared by you for use in local advertising

4 We will inspect and observe the operations of the Cafe from time to time to determine whether you and the Cafe are complying with the Franchise Agreement and all Macchiato System standards. The details of inspections will be furnished in our Operations Manual

5 Administer the advertising fund in the manner described in the Franchise Agreement

6 We will provide ongoing initial training program, and we will also offer advanced and refresher training for managers

7 We will update periodically the Operations Manual, as needed, to incorporate new developments and changes in the Macchiato System, and will provide you a copy of all updates

8 In our discretion, at any time, without prior notice, we may delegate performance of our duties to our affiliate operating in your market. These duties may include conducting inspections and providing consultation and advice

C Advertising and Marketing Fund

We reserve the right to establish an Advertising Fund (the "Fund") for such advertising, marketing and public relations programs as we, in our sole discretion, may deem necessary or appropriate to promote Macchiato Cafes. We will administer the Fund as follows:

1 We will direct all advertising and public relations programs financed by the Fund, with sole discretion of approval over agencies, spokespersons, creative concepts, materials, and media placements and allocations used in the programs. The Fund may be used to pay the costs of researching, preparing, maintaining, administering, directing and preparing advertising and promotional materials and programs (including the costs of preparing and conducting digital, television, radio, magazine, newspaper, direct mail, outdoor billboard, and coupon advertising campaigns and other public relations activities, employing advertising agencies, social media initiatives, providing a toll-free number for prospective customers to call for referral purposes, providing promotional brochures and other marketing materials to franchisees in the System, and costs of our personnel and other departmental costs for advertising that we administer or prepare internally). We may use a portion of the amounts collected in the Fund to defray the reasonable administration costs and overhead costs we and/or an affiliate incur in providing and/or administering the Fund and the marketing programs, including, but not limited to, the cost of providing accounting, collection, bookkeeping, reporting and legal services, and salary costs of employees working for the Fund. You must participate in all advertising and public relations programs instituted by the Fund. All Macchiato Cafes owned by us or our affiliates will contribute to the Fund on the same basis as you. See Item 6 for the amount you are required to contribute to the Fund.

2 The Fund will be accounted for separately from our other funds. We may spend in any fiscal year an amount greater or less than the aggregate contribution of all Cafes to the Fund in that year, and the Fund may borrow from us or other lenders at standard commercial interest rates to cover deficits of the Fund or cause the Fund to invest any surplus for future use by the Fund. The Fund we collect from franchisees does not constitute a trust and we are not a fiduciary with respect to such amounts. We are not obligated to expend funds for the marketing and advertising programs in excess of the Marketing Fee received from all franchisees.

3 You authorize us to collect for remission to the Fund any advertising or promotional monies or credits offered by any supplier based upon your purchases. Any advertising or promotional monies or credits we collect from any supplier based upon your purchases will not be credited toward your required contribution to the Fund.

4 A statement of monies collected and costs incurred by the Fund will be prepared annually by us and will be furnished to you upon written request. We are not required to have the Fund statements audited. We will have the right to cause the Fund to be incorporated or operated through an entity separate from us at such time as we deem appropriate, and such successor entity will have all our rights and duties.

5 The Fund is intended to maximize recognition of the Proprietary Marks and patronage of Macchiato Cafes generally. Although we will endeavor to utilize the Fund to develop advertising and marketing materials and programs, and to place advertising, in order to benefit all Macchiato Cafes, we undertake no obligation to ensure that expenditures by the Fund in or affecting any geographic area are proportionate or equivalent to the contributions to the Fund by the Cafes operating in that geographic area or that any Cafe will benefit directly or in proportion to its contribution to the Fund from the development of advertising and marketing materials or the placement of advertising. Your failure to derive any such benefit will not serve as a basis for a reduction or elimination of your obligation to contribute to the Fund. We have no fiduciary obligation to you or any other Macchiato Cafes in connection with the establishment of the Fund or the collection, control or administration of monies paid into the Fund. Except as expressly provided in the Franchise Agreement, we assume no direct or indirect liability or obligation to you with respect to the maintenance, direction, or administration of the Fund.

6 The Fund may place advertising in any media, including social media, print, radio and television. Advertising may be developed in-house and/or by regional and national advertising agencies. No money will be spent by the Fund to solicit new franchisees.

D Local Advertising

1 You must, at your own cost, develop promotional materials and advertising for local use and spend at least 2% of the Gross Sales on local advertising as your Local Advertising Fee. Before distributing or publishing any advertising or promotional materials you create, you must obtain our written approval of the materials you intend to distribute. As a condition of approval, you must assign your copyright and any trademark or service mark rights in any materials you create to us, without compensation. You must permit us, the Advertising Fund and other Macchiato' franchisees we authorize, to use these materials without compensation.

2 All advertising, promotion and marketing must be completely clear and factual and not misleading and conform to the highest standards of ethical marketing and the promotion policies which we prescribe from time to time. You may not use any advertising or promotional materials that we have not approved, have disapproved or that do not include the copyright registration notices and trademark registration notices we designate.

3 To apply for approval, you must submit a copy or transcript of the proposed materials in the exact form you intend to use them. We have 15 business days to review your request. If you do not receive our written disapproval in 15 business days, the materials are deemed to be approved, unless we request a reasonable extension of time. If you use materials we approve, you must use them in the exact form in which you submitted them to us. You retain discretion over all decisions which concern or affect the prices of goods or services you sell.

4 We reserve the right to require you to include certain language in your local advertising, such as “Franchises Available” and our website address and telephone number

E Advertising Cooperatives/National Advertising Council

1 We may establish advertising cooperatives comprised of groups of franchisees within regions or areas we designate, and may modify boundaries of these groups in our discretion, effective on written notice. You must participate in any advertising cooperative which encompasses your territory. The members of each cooperative will adopt governing rules and voting procedures and determine procedures for assessing members, however, we may approve these rules and procedures and any amendments. If any of our affiliates owns a Macchiato Cafe within the boundaries of a cooperative, it will contribute to the cooperative at the lowest percentage contribution rate that any Macchiato Franchisee in the same cooperative then pays and will have the same voting rights as franchisee members.

2 Each cooperative's members and elected officers are responsible for the cooperative's administration. The cooperative must obtain our written approval of the copy and proposed media or method of distribution for advertising and promotion it creates, following the same procedures you must follow for materials you create, as described above. The cooperative must assign to us any copyright, trademark or service mark rights in any materials it creates, without compensation, and permit us and other Macchiato Franchisees which it authorizes to use these materials without compensation.

3 We may require a cooperative to merge with another cooperative servicing an adjacent or proximate area, or to subdivide a cooperative into smaller groupings. We may dissolve a cooperative when we simultaneously dissolve all advertising cooperatives. For example, we may determine it is preferable to centralize all group advertising activities under the Marketing Fund. Advertising cooperatives must prepare quarterly and annual financial statements, which need not be audited, and make them available to all cooperative members and us. We have no present plan to sell goods or services to any advertising cooperative.

4 At this time, there is no advertising council of franchisees that advises us regarding advertising and promotional programs or policies for Macchiato Cafes generally. We do not currently require franchisees to participate in a local or regional advertising cooperative. No local or regional advertising cooperative exists in our system at this time.

F Website/Social Media

1 We alone may establish, maintain, modify or discontinue all internet, worldwide web and electronic commerce activities pertaining to the System. We may establish one or more websites accessible through one or more uniform resource locators (“URLs”) and, if we do, we may design and provide for the benefit of your Cafe a “click through” subpage at our website for the promotion of your Cafe. If we establish one or more websites or other modes of electronic commerce and if we provide a “click through” subpage at the website(s) for the promotion of your Cafe, you must routinely provide us with updated copy, photographs and news stories about your Cafe suitable for posting. We reserve the right to specify the content, frequency and procedure you must follow for updating your subpage.

2 Any websites or other modes of electronic commerce that we establish or maintain may—in addition to advertising and promoting the products, programs or services available at Macchiato Cafes—also be devoted in part to offering Macchiato Franchises for sale and be used by us to exploit the electronic commerce rights which we alone reserve.

3 You may not maintain your own website, otherwise maintain a presence or advertise on the internet or any other mode of electronic commerce in connection with your Café, establish a link to any website we establish at or from any other website or page, or at any time establish any other website, electronic commerce presence or URL which in whole or in part incorporates “Macchiato” name or any name confusingly similar to the Proprietary Marks

4 You are not permitted to promote your Café or use any of the Proprietary Marks in any manner on any social or networking websites, such as Facebook, LinkedIn or Twitter, without our prior written consent. We will control all social media initiatives. You must comply with our System standards regarding the use of social media in your Franchised Business’s operation, including prohibitions on your and the Franchised Business’s employees posting or blogging comments about the Franchised Business or the System, other than on a website established or authorized by us. “Social media” includes personal blogs, common social networks like Facebook, Instagram, Foursquare and MySpace, professional networks like LinkedIn, live-blogging tools like Twitter, virtual worlds, file, audio and video-sharing sites, and other similar social networking or media sites or tools. We will provide access to branded social media pages/handles/assets, and you must update these regularly. We reserve the right to conduct collective/national campaigns via local social media on your behalf.

We alone will be, and at all times will remain, the sole owner of the copyrights to all material which appears on any website we establish and maintain, including any and all material you may furnish to us for your “click through” subpage.

G Confidential Operating Manual

Attached as Exhibit D is a copy of the table of contents of our current Operating Manual, which indicates the number of pages devoted to each topic and subtopics in the Operating Manual.

H Information System/Cash Register/Computer System

1 You must, at your sole cost, purchase, use, maintain and update your software, computer and other POS systems that meet our specifications and requirements. There are no contractual limitations on the frequency and cost of upgrades and updates to the systems or programs. You must comply with our then-current terms of use policies and any other requirements regarding any inter/intranet sites we establish for Macchiato Cafés. You must maintain your POS system in good working order at all times, share the login information with us, and upgrade or update the system during the term of the Franchise Agreement, as we may require. The POS system will allow us to communicate with you, and poll and review the results of your Franchised Business’ operations, including without limitation, sales data, consumer trends, food and labor costs, and other financial information. You must provide accurate, complete and full disclosure of the books and accounts and give us direct access to any third parties through which revenue is generated, including but not limited to, Uber Eats, Postmates, Eat24, and Door Dash. We may distribute the collected data on a confidential basis to our network of franchisees. We reserve the right to replace our designated supplier(s) for the POS system as we deem necessary at our discretion.

2 The cost of purchasing the required system is estimated to range between \$500 and \$1,000.

3 You must obtain and maintain at your own expense accounting, sales, reporting and records retention systems conforming to the requirements set by us. We reserve the right to use, and to have full access to, all your cash registers, computers and any other systems, their login information, and the information and data they contain. We may charge a reasonable fee for the license, modification, maintenance or support of software or any other goods and/or services that we furnish to you in connection with any of the systems.

4 We may introduce to the Macchiato System additional computer software and hardware (including POS and additional back office systems) which you must purchase, use, maintain and update at your expense, as specifications and requirements may be modified over time. In some cases, these components may only be available through us or approved vendors. You will be responsible for paying all supplier and/or licensor (which may include us) charges for use, maintenance, support and/or updates to any future required systems. We do not have a contractual obligation under the Franchise Agreement to provide any maintenance, repairs, upgrades, or updates on any software or hardware. There are no contractual limitations on the frequency and cost of upgrades and/or updates to the systems or programs.

5 You will use the computer for basic accounting practices, receiving and responding to emails, submitting monthly reports. We will have access to all data captured by these computers. There is no contractual limitation on our use of the data, although any use by us shall be for reasonable business purposes. Neither we, our affiliates, nor any third parties are required to provide ongoing maintenance, repairs, upgrades or updates to your System.

7 We do not warrant or have any responsibility for the software or hardware you must obtain. Any warranty you may have on equipment or software will be limited to that provided by the applicable manufacturer or licensor.

I Site Selection, Opening and Time to Open

1 It is our standard procedure to have you search, identify and select the site for the Macchiato Cafe. Our site acceptance is based on residential population, traffic counts and patterns, competing establishments, median income levels, availability of parking, rental and lease terms, physical configuration of the site and growth trends in the area. We must approve any site selected, but our consent will not be unreasonably withheld. If you cannot find a suitable site within 12 months (or eighteen months, if you request and receive an extension) from signing the Franchise Agreement, we can terminate the Franchise Agreement.

2 We estimate that there will be an interval of 3 to 9 months between the execution of the Franchise Agreement and the opening of the Macchiato Cafe, but the interval may vary based upon such factors as the location and condition of the site, the construction schedule for the Cafe, the extent to which an existing location must be upgraded or remodeled, the delivery schedule for equipment and supplies, delays in securing financing arrangements and completing training and your compliance with local laws and regulations. You may not open the Cafe for business until (1) we approve the Cafe as developed according to our specifications and standards, (2) pre-opening training has been completed to our satisfaction, (3) the Initial Franchise Fee and all other amounts then due to us have been paid, and (4) we have been furnished with copies of all required insurance policies, or such other evidence of insurance coverage and payment of premiums as we request. You must open the Macchiato Cafe for business at least five days after we notify you that the Cafe is ready to open unless there are circumstances beyond your control. We must approve any delay in opening of the Cafe with approval to be reasonable in nature.

J Training

1 Our new franchisee initial training program consists of approximately one week of instruction by our management team concerning all aspects of the operation and management of the Franchised Business. The initial training includes review and discussion of the Confidential Operations Manual and all aspects of the operation of your business. The training should be scheduled near the time of the completion of the construction of your Macchiato Cafe and after hiring your key employees, but at least two weeks prior to the opening of your Cafe.

2 The training will take place at our headquarters located in Hacienda Heights, California, or at another location or locations as we may designate and will be conducted by our certified instructors. We may require that you and/or your designated manager(s) attend such further training programs as we shall from time to time reasonably prescribe and complete the programs to our satisfaction. A person who has successfully completed our new franchisee training program must at all times actively supervise the operation of your Macchiato Cafe.

3 For all required initial training courses, we will provide, at no charge to you, instructors and training materials. You will be responsible for all other expenses which you or your employees incur for the purpose of this training, including the cost of transportation, lodging, meals and wages. There is a fee for refresher courses, currently rated at \$100 per hour per instructor, plus other expenses incurred including transportation, lodging and meals. The fee will be primarily to compensate the personnel who teach the courses and to defray the expenses of such courses. If you need to replace your Designated Manager, the replacement Designated Manager must attend and complete the supplemental training program to our satisfaction as soon as is practicable. For this training, we charge a Supplemental Training Fee to train replacement Designated Managers, which is currently \$100 per hour per instructor, plus other expenses incurred including transportation, lodging and meals.

4 You are responsible for the recruitment and hiring of *all* of your employees. You are also responsible for the training of all Cafe employees.

5 We will be available to consult with you and/or your Designated Manager by telephone, Monday through Friday 11:00 a.m. to 7:00 p.m. (Pacific Time), with respect to all aspects of starting and operating your Macchiato Cafe.

6 Listed below is a chart showing our tentative training schedule, the principal instructors, the instructional material you will use, and the location of the initial training.

INITIAL TRAINING PROGRAM

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location
Introduction to the System	1		Corporate Training Facility (currently Hacienda Heights, CA)
Human Resources Management	2	3	Corporate Training Facility
Food Preparation	2	9	Corporate Training Facility
Menu/Plate Presentation	1	5	Corporate Training Facility
Product Ordering - Specifications and Inventory Control	2	2	Corporate Training Facility
Equipment Usage and Maintenance	2	3	Corporate Training Facility

POS System and Payroll Management	3	2	Corporate Training Facility
Marketing and Advertising	1		Corporate Training Facility
Quality Standards and Cafe Sanitation	2	3	Corporate Training Facility
Total	16	27	

7 All aspects of training are integrated. There are no definitive starting and stopping times. The training program will be supervised by our experienced corporate trainer. We can require that you and/or your Manager attend additional and/or refresher training programs, including national and regional conferences, conventions and meetings, as we may reasonably require, to correct, improve and enhance your operations, the System, and its members at our corporate headquarters, with durations not longer than 3 days and not more than 2 times in any given year. You will be responsible for all travel, living, incidental and other expenses for you and your personnel attending optional or mandatory training programs, seminars or meetings. We may charge a reasonable fee for any training program, conference, convention or other events.

ITEM 12

TERRITORY

We grant you a franchise for a specific location, which we must approve according to site selection procedures described in Items 5 and 11 of this Franchise Disclosure Document. Relocation of your Cafe requires our prior written approval.

You will not receive an exclusive territory, as all territories granted by us are subject to exceptions and reservations noted below. However, the franchise does grant a specific non-exclusive territory in which we agree, subject to exceptions and reservations noted in this Item 12, not to operate or permit others to operate a Macchiato Cafe.

A. Description of Your Non-Exclusive Territory

We will present you the proposed boundaries of your non-exclusive territory after we approve your franchise location. Your non-exclusive territory will be a radius around your Macchiato Cafe, which will vary depending on whether your Cafe is located in an urban, suburban or rural setting. In determining the proposed boundaries, we will consider such factors as the population size, ethnic make-up, persons per household, income level, residential/commercial mix, and population age, traffic patterns, parking, and access issues, neighboring business mix, rent and leasing terms, and size, appearance and other physical characteristics of the premises, and presence of any other nearby Macchiato Cafes. The specific description of your non-exclusive territory along with the corresponding map showing the clear boundaries of your territory, will then be placed in writing and incorporated into your franchise agreement.

B. Exceptions and Reservations

The territorial rights we grant you for your Macchiato Cafe are subject to these exceptions and

reservations. We retain all rights with respect to the Macchiato Cafes, the Proprietary Marks, and any goods and services anywhere, including

1 Menu items and ingredients under the Macchiato Marks or other names to independent stores, convenience stores, grocery stores, specialty food stores, and department stores which sell foods, beverages or ingredients in your territory. This means, for example, we may prepare and sell on the third-party's premises freshly-prepared, ready-to-serve or ready-to-eat food and beverage items under the Macchiato name or other names, we may also sell from these locations specialized food and beverage items or ingredients bottled or packaged under the Macchiato label or other labels.

2 Menu items sold at Macchiato Cafes, or operate (or permit others to operate) Macchiato Cafes or shops under other names which predominantly serve similar menu items at, or in, any airport, rail or bus terminal, stadium, amusement park, event halls, public park, theater, military base, hospital or health care facility, educational facility, high density office location or other mass gathering place even if located, entirely or partially, in your territory.

3 Menu items under the Macchiato Marks or under other names from mobile units or carts, food trucks, kiosks, vending machines, or other mobile or stationery devices or vehicles which occupy less than 300 square feet and are in your territory.

4 Advertise and promote the sale of, and sell, menu items sold at Macchiato Cafes through the Internet or by using any other public computer network, electronic communication method or by mail order, catalog sales or comparable methods that solicit orders and business from customers without requiring the customer's physical presence in a Macchiato Cafe to complete the transaction.

5 Engage in, or license, any other type of business activity under marks that are different to the Marks, whether, competitive with, similar to or different from the Macchiato System within or outside of your territory.

6 We may engage or let others engage in the above activities in your territory without paying you any compensation or any other consideration. We do not have to pay you for soliciting or accepting orders from inside your territory for the above activities. We will use reasonable efforts to try and resolve conflicts between franchisees regarding territorial rights. At this time we have no formal grievance procedure.

6 We reserve all other distribution rights that we do not expressly grant to you. By distribution rights, we mean all forms and channels of distribution, regardless of whether we use the method now or adopt it in the future. Channels of distribution include the Internet, catalog sales, telemarketing or other direct marketing sales. Technology may yield new channels of distribution. The kinds of reserved activities which we or our affiliates may engage in within your territory or development territory might include, directly or through one of our affiliates, selling products and services of any kind, including, without limitation, freshly-prepared, ready-to-serve and ready-to-eat food and beverage items under the Macchiato Marks or other names, through retail and wholesale channels of distribution, including by means of the Internet and mail order catalogs, in addition to sales through independent Cafes, convenience stores, grocery stores, specialty food stores and department stores.

7 We do not restrict advertising and publicity you conduct for your franchised business in your territory. Likewise, we and other franchisees may conduct advertising and publicity of ours and their Macchiato Cafes in your territory. You and any Macchiato Franchisees are not permitted to maintain a separate Website and to advertise and promote their Macchiato Cafe on the Internet or using any other public computer network.

C Additional Disclosures re Territory

1 The Franchise Agreement lets you engage only in retail transactions of authorized goods and services to customers for their own use and for their own consumption at your Macchiato Cafe. You may not engage in wholesale sales without our prior written consent. "Wholesale sales" includes the sale or distribution of merchandise or products to a third party for resale, retail sale or other method of distribution. You may not engage in transactions with customers that do not take place on the premises of your Macchiato Cafe.

2 Unless we consent in writing, you will not have the right to acquire additional franchises within the territory we assign to your Macchiato Cafe. Your franchise rights are not contingent on achieving any minimum sales level or other sales or market penetration contingency.

3 We and our affiliates have the right but no current plan to operate or franchise other businesses selling or leasing similar products or services under different trademarks.

4 Nothing restricts our right to use and license the use of the Marks and System outside of the territory.

ITEM 13

TRADEMARKS

The following trademark has been filed with the United States Patent and Trademark Office ("USPTO")

TRADEMARK	SERIAL NUMBER	FILING DATE
Macchiato  (MACCHIATO)	87819710	March 5, 2018
(Potted Plant Macchiato)	87819708	March 5, 2018
(Macchiato)	87819692	March 5, 2018
(Macchiato)	88056363	July 27, 2018
(Macchiato)	88056383	July 27, 2018
(Macchiato)	88056310	July 27, 2018

A Your use of the mark identified above as well as other trademarks, service marks, trade names and commercial symbols we may authorize in the future (collectively, the "Marks" or "Proprietary Marks"), and any goodwill is pursuant to a license granted to you under the Franchise Agreement and you retain no further rights in the Marks. You also retain no rights in the Marks upon expiration or

termination of your Franchise Agreement. You are not permitted to make any changes or substitutions of any kind in or to the use of the Marks unless we direct in writing. We may change the System presently identified by the Marks, including the adoption of new Marks, new products, new equipment or new techniques and you must adopt the changes in the System. You must comply within a reasonable time if we notify you to discontinue or modify your use of any Mark. We will have no liability or obligation as to your modification or discontinuance of any Mark.

B There are currently no effective material determinations by the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court, or any pending infringement, opposition or cancellation proceeding, or any pending material litigation, involving the Marks. There are currently no agreements in effect that significantly limit our rights to use or license the use of any Marks in any manner material to the franchise.

C If we find in our sole discretion that your use of the Marks was proper as outlined in the terms of the Franchise Agreement, we are obligated to protect you against infringement or unfair competition claims arising out of your use of the Marks or to participate in your defense or indemnify you for the costs you incur in connection with any lawsuit except that we will not be required to reimburse you for your legal fees if we defend you for the claim. We reserve the right to control any litigation related to the Marks, and we have the sole right to decide to pursue or settle any infringement actions related to the Marks. We do not know of either superior prior rights or infringing uses that could materially affect your use of the Marks in the state where your Cafe will be located. You must notify us promptly of any infringement or unauthorized use of the Marks that you may become aware.

D If it becomes advisable at any time in our sole discretion, we may require you, at your expense, to discontinue or modify your use of any of the Marks or to use one or more additional or substitute trade names, service marks, trademarks, symbols, logos, emblems and indicia of origin if we determine that an addition or substitution will benefit the System. You must comply with our directions within a reasonable period of time after receiving notice. We will not be obligated to reimburse you for any loss of revenue attributable to any modified or discontinued Marks or for any expenditures you make to promote a modified or substitute trademark or service mark.

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

F The license to use the Marks granted in the Franchise Agreement is non-exclusive to you. We have and retain certain rights in the Marks including the following:

- 1 To grant other licenses for the use of the Marks in addition to those licenses already granted or to be granted to franchisees,
- 2 To develop and establish other systems using the Marks or other names or marks, and to grant licenses or franchises in those systems without providing any rights to you, and
- 3 To engage, directly or indirectly, at wholesale, retail or otherwise, in (a) the production, distribution, license and sale of products and services, and (b) the use of the Marks and any and all trademarks, trade names, service marks, logos, insignia, slogans, emblems, symbols, designs and other identifying characteristics we may develop for that purpose.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

- A There are no patents or copyrights currently registered that are material to the franchise
- B Our confidential Operations Manual, other manuals, training material, merchandise and vendor lists and updates, action plans, and other directives contain material which we consider to be trade secrets. You must operate the Cafe in accordance with the standards and procedures specified in the Operations Manual. One copy of the Operations Manual will be loaned to you by us for the term of the Franchise Agreement. We claim trade secret and copyright protection for these manuals and materials specifically created by us in connection with the System, including the proprietary advertisements, all of our materials presented to your prospective customers, printed materials, and forms used in connection with the operation of a Franchised Business although we have not filed any corresponding applications concerning them. We reserve the right to register these copyrights in the future.
- C We are not obligated to protect you against infringement or unfair competition claims arising out of your use of a patent, patent application, or copyright licensed to you, if any, or to participate in your defense or indemnify you. We reserve the right to control any litigation related to our patent, patent application, or copyright, if any, and we have the sole right to decide to pursue or settle any such claims. If it becomes advisable at any time in our sole discretion, we may require you, at your expense, to discontinue or modify your use of any of our patent, patent application, or copyright licensed to you. You must comply with our directions within a reasonable period of time after receiving notice. We will not be obligated to reimburse you for any loss of revenue attributable to any modified or discontinued patent, patent application, or copyright, or for any expenditures you make to promote a modified or substitute copyright. We do not know of any patent or copyright infringement that could materially affect you.
- D You must not, during the term of the Franchise Agreement and after the term ends, communicate, divulge, or use for the benefit of any other party any confidential information, knowledge, know-how, or techniques concerning our secret recipes or methods of operation of the Franchised Business that you learned while you were our franchisee. You may divulge Confidential Information only to your employees who need the information to operate your Franchised Business. All information, knowledge, know-how and techniques that we designate confidential will be deemed confidential, except information that you can demonstrate came to your attention before we disclosed it to you, or which after we disclosed it to you became a part of the public domain through publication or communication by others. You have to follow our direction in protecting the manuals and other trade secret material from unauthorized disclosure. You must use our proprietary materials only as we direct. You must also use all reasonable efforts to maintain this information as secret and confidential and you must not duplicate, copy, record or otherwise reproduce these materials, in whole or in part, or make them available to unauthorized person. The Operations Manual remains our sole property.
- E You must promptly tell us when you learn about unauthorized use of this proprietary information. We are not obligated to take any action or defend you against claims arising from your use of this information but will respond to this information as we deem appropriate. We will not indemnify you for losses brought by a third party concerning your use of this information. If you develop any new concept, process or improvement in the operation or promotion of your Franchised Business, you must promptly notify us and give us all necessary information about the new process or improvement, without compensation. You agree that any of these concepts, processes or improvements will become our property, and we may use or disclose them to other franchisees, as we deem appropriate.

F All of your employees, managers and supervisors must sign a confidentiality agreement in which they promise to keep all of our proprietary information confidential and to follow our directions regarding its use. Your principals also must sign this confidentiality agreement. We will be a third party beneficiary of the confidentiality agreement with the independent right to enforce them.

G Neither you nor your controlling principals are permitted at any time, without first obtaining our written consent, to copy, record or otherwise reproduce the materials or information nor make them available to any unauthorized person. Any and all information, knowledge, know-how and techniques related to the System that we communicate to you, including the Manual, recipes, plans and specifications, marketing information and strategies and site evaluation, selection guidelines and techniques, are considered confidential.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

A If you are an individual, you must devote full time and attention to supervising all administrative and operational activities of your franchised business at the franchise location. You and your spouse must sign a personal guaranty.

B If a legal entity owns the franchise rights, like a corporation, partnership or limited liability company, the person who owns a controlling interest in the entity's equity or voting rights, or a general partner, must devote full time and attention to franchise activities. All individual owners of such legal entity and their spouses must sign a personal guaranty. If none of the owners owns a controlling interest in the entity's equity or voting rights, you must designate one of your owners as your "Operating Principal," primarily responsible for the Franchised Business. Your Operating Principal must have and maintain at least 10% ownership of the Franchised Business and have decision-making authority about the Franchised Business. We must approve your Operating Principal, and you must designate a qualified replacement from among your owners if your Operating Principal can no longer fulfill his/her responsibilities under the Franchise Agreement.

C You must respond to our communications and requests for information within time frames we request.

D You must staff your Macchiato Cafe with at least one (1) "Approved Manager." An "Approved Manager" is a full-time employee with management responsibilities who has successfully completed the manager training segment of the initial training program and any mandatory supplemental management classes. You (or the Operating Principal, or the general partner of a partnership) may be an Approved Manager, provided you devote full time and attention to your franchise business. You must hire and train all your employees. You may also send your employees to our training programs.

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

A You must operate your Macchiato Cafe in accordance with the System Standards (including required products and services) We have the right, without limitation, to change the types of products and services that you are authorized to sell at our sole discretion You must sell and offer for sale only the menu items and other products and services that we have expressly approved in writing You must not deviate from our System Standards without first obtaining our written consent

B There are no restrictions on the customers to whom you can sell the products at your Macchiato Café However, you may not use your Cafe for any purposes other than the operation of the Macchiato Cafe in full compliance with the Franchise Agreement and Manual, without our prior written approval You must purchase, use and offer each of and only the types, brands and quality of products and services we designate The Franchise Agreement allows you to operate one Macchiato Cafe at the franchise location only, and nowhere else, except with our prior written approval

C You must operate your Macchiato Cafe all days and during the minimum hours we prescribe in the Operations Manual, unless local conditions, like terms of your lease, require different days/hours or you obtain our prior written consent Your operations must comply with all laws, including, but not limited to, laws on packaging, labeling, health and sanitation, environmental waste, and the like You must investigate these laws and ensure compliance

D Any variation from our mandatory requirements requires our prior written approval We grant approval only in exceptional cases in our discretion Granting an exception to another franchisee does not require us to grant you that *or* any exception

E We may add to, modify or discontinue the approved list of menu items, ingredients, preparation processes, or other goods and services you must offer We communicate changes by written bulletin or revisions to the Operations Manual There is no limit on our right to impose these modifications You will be given reasonable time (at least 30 days) after notice from us to implement changes and stop selling particular items which we delete from the approved list

ITEM 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

This table lists important provisions of the franchise and related agreements pertaining to renewal, termination, transfer and dispute resolution You should read these provisions in the agreements attached to this Franchise Disclosure Document.

Provision	Article in Franchise Agreement	Summary
a Term of the franchise	IV	5 years
b Renewal or extension of the term	IV	5 years

Provision	Article in Franchise Agreement	Summary
c Requirements for you to renew or extend	IV	Franchisor may extend or grant a new Franchise Agreement if you have been in substantial compliance with agreement You may have to remodel the Cafe, at your expense You must sign a Franchise Agreement in effect which may contain materially different terms and conditions than the agreement you signed originally
d Termination by you	None	The Franchise Agreement does not provide for this But you may seek to terminate on any grounds available to you under applicable law
e Termination by us without cause	None	
f Termination by us with cause	XVII	We can terminate only if you commit any one of several listed violations
g "Cause" defined – defaults which can be cured	XVII	30 days for operations defaults, 30 days for monetary defaults, 24 hours for health code violations
h "Cause" defined – defaults which cannot be cured	XVII	Conviction of a felony, abandonment, unapproved transfers, bankruptcy, assignment for benefit of creditors, repeated violations
i Your obligations on termination/non-renewal	XVIII	Pay outstanding amounts, de-identification, return of confidential information and telephone numbers (see also below)
j Assignment of contract by us	XX	No restriction on our right to assign However, no assignment will be made except to an assignee who, in our good faith judgment is willing and able to assume our obligations under the Franchise Agreement
k "Transfer" by you – definition	XX	Includes transfer of contract of assets or any ownership change
l Our approval of transfer by you	XX	We have the right to approve all transfers, our consent not to be unreasonably withheld

Provision	Article in Franchise Agreement	Summary
m Conditions for our approval of transfer	XX	Transferee qualifies, all amounts due are paid in full, transferee completes training, transfer fee paid, all required documents including a then-current form of the franchise agreement and a transfer agreement containing a general release are executed, and transferee and transferor comply with all of our requirements
n Our right of first refusal to acquire your business	XX	We can match any offer
o Our option to purchase your business	XX	We can buy the business on termination or non-renewal for the formula price described in Article XX
p Your death or disability	XX and XXI	Franchise must be assigned to approved buyer within 12 months or transferred to an heir or representative
q Non-competition covenants during the term of the franchise	XIV	Can't divert business, solicit employment of our or our franchisees' employees or operate a competing business anywhere
r Non-competition covenants after the franchise is terminated or expires	XIV	No competing business for two years, within 10 miles of any other Macchiato Cafe, cannot solicit employment of our or our franchisees' employees or contact former suppliers, vendors or customers for a competitive business purpose
s Modification of the agreement	XXXII	No modifications generally but Operations Manual subject to change Revisions to the Operations Manual will not unreasonably affect your obligations, including economic requirements, under the Franchise Agreement
t Integration/ merger clause	XXXII	Only the terms of the Franchise Agreement are binding (subject to state law) Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable

Provision	Article in Franchise Agreement	Summary
u Dispute resolution by arbitration or mediation	XXX	Except for certain claims, all disputes must be arbitrated in California (subject to state law)
v Choice of forum	XXX	Arbitration in California (subject to state law)
w Choice of law	XXIX	California law applies except with respect to enforcement of the non-competition covenants, which will be interpreted under the laws of the state where your Cafe is located (subject to state law)

1 California Corporations Code Section 31125 of the Franchise Investment Law requires us to give to you a disclosure document approved by the Commissioner of Corporations before we ask you to consider a material modification of your franchise agreement

2 You must sign a general release of claims if you renew or transfer your franchise California Corporations Code Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516) Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043)

3 Please refer to the disclosure addenda and contractual amendments appended to this Disclosure Document for additional terms that may be required under applicable state law

ITEM 18

PUBLIC FIGURES

We currently do not use any public figure to promote our franchise, but may do so in the future

ITEM 19

FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC's Franchise Rule permits a franchisor to provide information about actual or potential financial performance of its franchised and/or franchiser-owned outlets, if there is a reasonable basis for the information, and the information is included in the disclosure document Financial performance information that differs from that included in Item 19 may be given only if (1) a franchisor provides the

actual records of an existing outlet you are considering buying, or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned, affiliate-owned or franchised Macchiato Cafes. We do not authorize our employees or representatives to make any such representations either orally or in writing. But if you are purchasing an existing Macchiato Cafe from us or an affiliate of ours, we may provide you the actual records of that Macchiato Cafe. If you receive any other financial performance information or projections of your future income, you should report it to our management by contacting Mr. Jason Tsai, President of Macchiato Group, Inc., 15838 Halliburton Road, Hacienda Heights, CA 91745, (626) 872-1351, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20

OUTLETS AND FRANCHISEE INFORMATION

As of the application date, we had no Macchiato Cafe Franchisees. Therefore, no franchisees had an outlet terminated, canceled, transferred, not renewed or otherwise voluntarily or involuntarily ceased to do business under our franchise agreement, and no franchisee has failed to communicate with us within ten weeks prior to the application date.

**Item 20(1) Table –
Systemwide Outlet Summary
For years 2015 to 2017**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2015	0	0	0
	2016	0	0	0
	2017	0	0	0
Company or Affiliate-Owned	2015	1	1	0
	2016	1	1	0
	2017	1	1	0
Total Outlets	2015	1	1	0
	2016	1	1	0
	2017	1	1	0

**Item 20(3) Table –
Status of Franchised Outlets
For years 2015 to 2017**

State	Year	Outlets at Start of Year	Outlet Opened	Termi- nation	Non- Renewal	Re- acquired by Franchisor	Ceased Opera- tions-Other Reasons	Outlet at the end of the Year
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CA	2015	0	0	0	0	0	0	0
	2016	0	0	0	0	0	0	0
	2017	0	0	0	0	0	0	0
Totals	2015	0	0	0	0	0	0	0
	2016	0	0	0	0	0	0	0
	2017	0	0	0	0	0	0	0

**Item 20(4) Table –
Status of Company or Affiliate Owned Outlets
For years 2015 to 2017**

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at the end of the Year
CA	2015	1	0	0	0	0	1
	2016	1	0	0	0	0	1
	2017	1	0	0	0	0	1
Totals	2015	1	0	0	0	0	1
	2016	1	0	0	0	0	1
	2017	1	0	0	0	0	1

**Item 20(5) Table –
Projected Openings As of Dec 31, 2017**

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlet In The Next Fiscal Year	Projected New Company-Owned Outlets In The Next Fiscal Year
California	0	0	2
Total	0	0	2

A list of the names of all franchisees and the addresses and telephone numbers of the franchises will be provided in Exhibit E to this disclosure document when applicable. The name, city, state and current business telephone number (or if unknown, the last known telephone number) of every franchisee who had a franchise terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business under the applicable Agreement during the most recently completed fiscal year or who has not communicated with us within 10 weeks of the issuance date of this disclosure document will be listed on Exhibit F to this disclosure document when applicable. If you buy Macchiato Franchise, your contact information may be disclosed to other buyers when you leave the franchise system. Because Macchiato Cafe franchise has yet to be offered, there is no available list of current franchisees or any franchisee who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do

business during the most recently completed fiscal year or who has not communicated with the franchisor within 10 weeks of the disclosure document issuance date

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with Macchiato Franchise. 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. During our last 3 fiscal years, we have not signed any confidentiality clauses with current or former franchisees which restrict them from speaking openly with you about their experience with us.

ITEM 21

FINANCIAL STATEMENTS

Attached to this Disclosure Document as Exhibit G is our audited financial statement as of July 31, 2018. Our fiscal year end is December 31st.

ITEM 22

CONTRACTS

All agreements proposed for use in this State are attached to this Franchise Disclosure Document as follows:

EXHIBIT C - Franchise Agreement

ITEM 23

RECEIPT

The last page of this Disclosure Document contains a detachable Receipt form which you must date, sign, and return to us immediately upon your receipt of this Disclosure Document.

EXHIBIT A

STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS

CALIFORNIA

Department of Business Oversight
320 West 4th Street, Suite 750
Los Angeles, CA 90013
(213) 576-7500
Toll Free No 1 866 275 2677

Agent California Commissioner of Dept of
Business Oversight

HAWAII

Department of Commerce and Consumer Affairs
Business Registration Division
Commissioner of Securities
335 Merchant Street, Room 203
Honolulu, HI 96813
(808) 586-2744

Agent Commissioner of Securities

ILLINOIS

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

Agent Illinois Attorney General

MARYLAND

Office of the Attorney General
Securities Division
200 St Paul Place
Baltimore, Maryland 21202-2020
(410) 576-6360

Agent Maryland Securities Commissioner
200 St Paul Place
Baltimore, Maryland 21202-2020

MICHIGAN

Consumer Protection Division
Antitrust and Franchise Unit
Michigan Department of Attorney
General
670 Law Building
Lansing, Michigan 48913
(517) 373-7177

Agent Michigan Department of Commerce
Corporations and Securities Bureau

MINNESOTA

Minnesota Department of Commerce
85 7th Place East, Suite 500
St Paul, Minnesota 55101-2198
(651) 296-4026

Agent Minnesota Commissioner of Commerce

INDIANA

Franchise Section
Indiana Securities Division
Room E-111
302 West Washington Street
Indianapolis, Indiana 46204
(317) 232-6681

Agent Indiana Secretary of State
Indiana Securities Division
201 State House
Indianapolis, IN 46204

NEW YORK

Administrator
New York State Department of Law
Investor Protection Bureau
28 Liberty St., 21st Floor
New York, NY 10005

Agent New York Secretary of State
99 Washington Avenue
Albany, NY 12231

NORTH DAKOTA

Office of Securities Commissioner
Fifth Floor
600 East Boulevard
Bismarck, North Dakota 58505
(701) 328-2910

Agent North Dakota Securities Commissioner

OREGON

Department of Insurance and Finance
Corporate Securities Section
Labor and Industries Building
Salem, Oregon 97310
(503) 378-4387

Agent Director of Oregon Department
of Insurance and Finance

NEBRASKA

Nebraska Department of
Banking and Finance
1200 N Street
P O Box 95006
Lincoln, Nebraska 68509-5006

SOUTH DAKOTA

Division of Securities
c/o 118 West Capitol
Pierre, South Dakota 57501
(605) 773-4013

Agent Director of South Dakota Division
Securities

TEXAS

Secretary of State
P O Box 12887
Austin, Texas 78711

VIRGINIA

State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219
(804) 371-9051

Agent Clerk of the State Corporation
Commission

RHODE ISLAND

Division of Securities
Suite 232
233 Richmond Street
Providence, Rhode Island 02903
(401) 222-3048

Agent Director of Rhode Island Department
of Business Regulation

WISCONSIN

Securities and Franchise Registration
Wisconsin Securities Commission
P O Box 1768
Madison, Wisconsin 53703
(608) 266-8559

Agent Wisconsin Commissioner of Securities

WASHINGTON

Director
Department of Financial Institutions
Securities Division
P O Box 9033
Olympia, Washington 98507
(360) 902-8760

Agent Securities Administrator, Director of
Department of Financial Institutions

EXHIBIT B

STATE SPECIFIC ADDENDUM

California

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

Neither the franchisor nor any person identified in Item 2 of this 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 the person from membership in the association or exchange

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

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

The Franchise Agreement contains a covenant not to compete that continues after the termination of the franchise. This provision may not be enforceable under California law.

Under both the California Franchise Relations Act and the Franchise Investment Law, a provision in a Franchise Agreement that requires you to waive your rights under either or both of these laws is void. Any release of claims that the franchisor asks you to sign will specifically exclude claims under these franchise laws.

Section 31125 of the California Corporations Code requires the franchisor to give the franchisee a special disclosure document before soliciting a proposed material modification of an existing franchise.

The franchise agreement and development agreement contain a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

The franchise agreement and development agreement requires binding arbitration. The arbitration will occur in Orange County, California, and the arbitrators have the discretion to assess the costs of arbitration, including reasonable arbitrators' and attorneys' fees in proportions as the arbitrators may determine. Prospective franchisees are encouraged to consult private 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 a franchise agreement restricting venue to a forum outside the State of California.

You must sign a general release of claims if you renew or transfer your franchise. California Corporations Code Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043).

OUR WEBSITE ADDRESS IS www.gotmacchiato.com. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS.

OVERSIGHT ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT WWW.DBO.CA.GOV

New York

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

INFORMATION COMPARING FRANCHISORS IS AVAILABLE CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT IF YOU LEARN THAT ANYTHING IN THE FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW, BUREAU OF INVESTOR PROTECTION AND SECURITIES, 120 BROADWAY, 23RD FLOOR, NEW YORK, NEW YORK 10271 THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT

2 The following is added at the end of Item 3

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

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

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

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

D No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State, or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency, or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange, or is subject to a currently effective injunctive or restrictive order relating to any other business

activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent

3 The following is added to the end of Item 4

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

4 The following is added to the end of Item 5

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

5 The following is added to the end of the "Summary" sections of Item 17(c), titled **"Requirements for franchisee to renew or extend,"** and Item 17(m), entitled **"Conditions for franchisor approval of transfer"**

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force, it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687 4 and 687 5 be satisfied

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

You may terminate the agreement on any grounds available by law

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

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

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

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

Rhode Island

The Rhode Island Securities Division requires the following specific disclosures to be made to prospective Rhode Island franchisees

In spite of the provisions of Item 17v and Item 17w of the Disclosure Document, any litigation or arbitration arising under the Franchise Agreement will take place in Rhode Island or other place mutually agreed to by the franchisee and franchisor

To the extent required by § 19-28 1-14 of the Rhode Island Franchise Investment Act, the Franchise Agreement will be governed by the laws of the State of Rhode Island

Washington

The State of Washington has a statute, RCW 19 100 180, that 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 the franchise.

In Washington, provisions of the Franchise Agreement which unreasonably limit the statute of limitations or remedies under the Washington Franchise Investment Act, such as the right to jury trial, may not be enforceable.

The Franchise Agreement requires application of the laws of a state other than Washington. If there is a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chap 19 100 RCW, will prevail.

The Franchise Agreement requires franchisee to sign a release of claims as a condition of renewing or transferring the franchise. A release or waiver of rights signed by a franchise owner may not include rights under the Washington Franchise Investment Protection Act.

Under Washington law, transfer fees may be collected only to the extent that they reflect the franchisor's reasonable estimated or actual costs in connection with the transfer.

EXHIBIT C

**MACCHIATO
FRANCHISE AGREEMENT**

MACCHIATO STORE
FRANCHISE AGREEMENT
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EXHIBITS

- “A” - LOCATION AND TERRITORY
- “B” - GUARANTEE AGREEMENT
- “C” - CONDITIONAL LEASE ASSIGNMENT PROVISIONS
- “D” - SITE LOCATION ADDENDUM
- “E” - CONFIDENTIALITY AND NON-COMPETITION AGREEMENT
- “F” - TRANSFER OF FRANCHISE TO A CORPORATION
- “G” - TELEPHONE NUMBER ASSIGNMENT AND POWER OF ATTORNEY
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MACCHIATO GROUP, INC
- “I” - ENTITY INFORMATION DISCLOSURE

MACCHIATO STORE

FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT, ("Agreement") is made and entered into the ____ day of _____, 20__, between MACCHIATO GROUP, INC, a California corporation whose principal address is 15838 Halliburton Road, Hacienda Heights, CA 91745 ("Franchisor"), and _____ residing at _____ ("Franchisee")

RECITALS

A Franchisor franchises certain cafe business, known as "Macchiato", featuring a specialized menu of beverages and small food and dessert items and other related products ("Menu Items" or "Products") Franchisor's retail cafes are operated under certain trademarks, service marks, logos and other commercial symbols, including without limitation "Macchiato" (collectively "Marks"), and pursuant to certain confidential information and trade secrets Menu Items are prepared according to proprietary recipes and procedures and use high quality ingredients, including without limitation, coffee, tea, and other beverages and light food and dessert items ("Trade Secret Food Products") Macchiato Cafés are operated with uniform formats, designs, systems, methods, specifications, standards and procedures, all of which may be improved, further developed or otherwise modified from time to time by Franchisor ("System")

B Franchisor grants to persons who meet Franchisor's qualifications and who are willing to undertake the investment and effort to establish and develop a Macchiato Cafe, a franchise to own and operate such a dessert cafe and restaurant, offering the Products and services approved by Franchisor and utilizing Franchisor's formats, designs, methods, specifications, standards, operating procedures and the Marks

C Franchisee received a copy of Franchisor's Franchise Disclosure Document ("FDD"), which contains a copy of this Agreement, at least fourteen (14) calendar days before executing this Agreement

D Franchisee acknowledges that Franchisee has read this Agreement and the FDD and that Franchisee understands and accepts the terms, conditions and covenants contained in this Agreement as being reasonably necessary to maintain Franchisor's high standards of quality and service and the uniformity of those standards at all Macchiato Cafes in order to protect and preserve the goodwill of the Marks

E Franchisee (i) acknowledges that Franchisee has conducted an independent investigation of the business contemplated by this Agreement, (ii) recognizes that, like any other business, the nature of the business conducted by Macchiato Cafes may evolve and change over time, (iii) acknowledges that an investment in a Macchiato Cafe involves business risks, and (iv) recognizes that the success of the venture is largely dependent upon the business abilities and efforts of Franchisee

F Franchisor expressly disclaims the making of, and Franchisee acknowledges that Franchisee has not received or relied upon, any warranty or guaranty, express or implied, as to the revenues, profits or success of the business venture contemplated by this Agreement Franchisee (i) acknowledges that Franchisee has not received or relied on any representations about the franchise by Franchisor, or its officers, directors, employees or agents, that are contrary to the statements made in

Franchisor's FDD or to the terms and conditions contained in this Agreement, and (ii) represents to Franchisor, as an inducement to Franchisor to enter into this Agreement, that Franchisee has made no misrepresentations in obtaining the franchise

G Franchisee has applied for a franchise to own and operate a single Macchiato Cafe at the premises identified in Article I below, and the application has been approved by Franchisor in reliance on all of the representations made in the application

In consideration of the above recitals and the mutual promises and covenants made in this Agreement, Franchisor and Franchisee agree as follows

ARTICLE I

GRANT OF FRANCHISE AND TERRITORY

1 1 Subject to the terms and conditions contained in this Agreement, Franchisor grants to Franchisee the right to own and operate a Macchiato Cafe at, and only at, the premises approved by Franchisor in accordance with the provisions of this Agreement (the "Cafe"), and to use the Marks in the operation of the Cafe

1 2 Unless an approved location has been selected by Franchisee at the time this Agreement is executed, Franchisee shall select the location of the Cafe, subject to Franchisor's approval, within the timeframe as provided in this Agreement

1 3 The franchise location and territory set forth in Exhibit "A" may not be altered or changed by Franchisee without Franchisor's prior written approval. In the event there is such an approval, the new franchise location shall become the "Franchise Location" under the terms of this Agreement

Territory

1 4 Franchisee shall have a territory that will be outlined in Exhibit "A" ("Territory"). The specific boundaries of Territory along with the corresponding map shall be determined by Franchisor and placed in writing and incorporated into this Agreement. In determining the boundary of your exclusive territory, Franchisor will consider such factors as the population size, ethnic make-up, persons per household, income level, residential/commercial mix, and population age, traffic patterns, parking, and access issues, neighboring business mix, rent and leasing terms, and size, appearance and other physical characteristics of the premises, and presence of any other nearby Macchiato Cafes

1 5 As long as Franchisee is not in default under this Agreement, Franchisor shall not operate, or grant others the right to operate, a Macchiato Cafe in the Territory. However, nothing in or elsewhere in this Agreement prohibits Franchisor from engaging in the following activities inside and outside of the Territory

A Selling or permitting others to sell any menu items sold at Macchiato Cafe, or pre-packaged items used to prepare any food items sold at Macchiato Cafes, under the Marks or other names, to restaurants, cafes, coffee shops, convenience stores, grocery stores, specialty food stores, and department stores selling food item located within the Territory

B Selling or permitting others to sell any menu items sold at Macchiato Cafe, or operating (or granting others the right to operate) a Macchiato Cafe, which is located at, or within, any

airport, rail or bus terminal, stadium, amusement park, public park, theater, military base, hospital or health care facility, educational facility, high density office location or other mass gathering place entirely or partially in the Territory

C Selling or permitting others to sell any menu items sold at Macchiato Cafe, or pre-packaged items used to prepare any food items sold at Macchiato Cafes, under the Marks or other names from mobile units or carts, kiosks, food trucks, vending machines, or other mobile or stationery devices or vehicles which occupy less than 300 feet and are in the Territory

D Advertising and promoting the sale of, and selling, menu items sold at Macchiato Cafes through the Internet or by using any other public computer network electronic communication method, or by mail order, catalog sales or comparable methods that solicit orders and business from customers situated in the Territory without requiring the customer's physical presence in a Macchiato Cafe to complete the transaction

1 6 Franchisee acknowledges that Franchisor, entities related to Franchisor through common ownership, and each of their officers, directors, employees and agents, may engage in any and every activity, within or outside of the Territory, which is not expressly prohibited by this Agreement. This Agreement does not limit Franchisor's right to (a) use or license the Marks or the System outside of the Territory, or (b) engage in, or license, any other type of business activity under marks that are different to the Marks, whether similar to or different from the Macchiato System, in the Territory

1 7 Franchisee acknowledges and agrees that Franchisee has no right to participate, directly or indirectly, in any activity reserved by Franchisor, and that Franchisee has no right to object to any activity reserved by Franchisor

1 8 Franchisor, in its sole discretion, reserves the right to approve exceptions or deviations from the System. Franchisee acknowledges it has no right to object to variances granted to others and to claim against Franchisor for failing to enforce standards of the System against other Macchiato Groups

1 9 Franchisee shall have no right to grant subfranchises to others. Franchisee shall not, and shall not attempt to, grant subfranchises to others

ARTICLE II

DEVELOPMENT AND OPENING OF THE STORE AND TERRITORY

Lease of Cafe Premises

2 1 Franchisor shall have the right, in its sole discretion, to require

A Franchisee to execute a Site Location Addendum in the form attached as Exhibit "D" to this Agreement,

B Franchisee to conditionally assign such lease to Franchisor (with the consent of the lessor, if required) by conditional lease assignment provisions in the form attached as Exhibit "C" to this Agreement in order to secure performance of any and all of Franchisee's liabilities and obligations to Franchisor, or

C That such lease contain substantially the following provisions

1 "Anything contained in this lease to the contrary notwithstanding, Lessor agrees that without its consent, this lease and the right, title and interest of the Lessee hereunder may be assigned by the Lessee to Macchiato Group, Inc , or its designee "

2 "Lessee agrees that Lessor may, upon the written request of Macchiato Group, Inc , disclose to Macchiato Group, Inc all reports, information or data in Lessor's possession respecting sales made in, upon or from the leased premises "

3 "Lessor shall give written notice to Macchiato Group, Inc (concurrently with the giving of such notice to Lessee) of any default by Lessee under the lease, and Macchiato Group, Inc shall have the right, in its sole discretion, to cure any such default Such notice shall be sent to Macchiato Group, Inc at its headquarters, or such other address as Macchiato Group, Inc may from time to time specify in writing to Lessor "

2 2 Franchisor shall have the right to approve the terms of any sublease or lease for the premises of the Cafe If Franchisor cures any default by Franchisee under such lease, the total amount of all costs and payments incurred by Franchisor in effecting such cure shall be immediately due and owing by Franchisee to Franchisor

2 3 Franchisee's execution of a lease or sublease for the location for Franchisee's Cafe shall constitute acceptance by Franchisee of such location and site and the terms of such lease and shall constitute a waiver of any claim or rights against Franchisor relating to Franchisee's choice of such site and location, and of the terms of such sublease or lease

Development of Cafe

2 4 Franchisor will furnish to Franchisee prototype or proto-style plans and specifications for a Macchiato cafe reflecting Franchisor's requirements for dimensions, exterior design, interior design and layout, image, building materials, fixtures, equipment, furniture, signs and decor

2 5 Within sixty (60) days after obtaining possession of the premises of the Cafe and having been furnished with the above-described plans and specifications, Franchisee will do or cause to be done the following

A Secure all financing required to fully develop the Cafe,

B Prepare, at Franchisee's expense, and submit to Franchisor for approval (which approval may be granted or withheld at Franchisor's sole discretion) any proposed modifications to Franchisor's prototype or proto-style plans and specifications, which may be modified only to the extent necessary to comply with applicable ordinances, building codes, permit requirements and lease or deed requirements and restrictions, all such modifications being subject to prior notification to, and approval by, Franchisor,

C Obtain all required building, utility, sign, health, sanitation and business permits and licenses, and any other required permits and licenses,

D Construct all required improvements to the premises, purchase and install all required fixtures and equipment and decorate the premises in compliance with plans and specifications approved by Franchisor, and

E Purchase, in accordance with Franchisor's specifications and requirements, an opening inventory of proprietary food items, Products, ingredients and other products and supplies required for the opening of the Cafe

2.6 Franchisee shall use Franchisee's best efforts to complete development and have the Cafe ready to open within two hundred forty (240) days after Franchisee obtains possession of the premises. All activities, including without limitation, (1) obtaining bids and concluding a contract with a suitable general contractor or contractors for the construction of the Cafe, (2) obtaining bids and concluding orders for the signs, fixtures, furnishings, equipment and operating supplies and materials, (3) making all decisions concerning the construction, furnishing, equipping and staffing of the Cafe, (4) maintaining a current and complete accounting of the costs of development of the Cafe, and (5) supervising the construction, furnishing, equipping and staffing of the Cafe, shall be performed by Franchisee in the time frames necessary to complete the development of the Cafe on schedule. All final decisions concerning the development of the Cafe which are discretionary and not dictated by Franchisor's written specifications shall be made by Franchisee. Within a reasonable time after the completion of development, a final accounting of all costs of development of the Cafe, along with copies of all contracts, lien waivers, other paid receipts and equipment warranties, shall be provided by Franchisee to Franchisor when requested. Franchisee may, at Franchisee's option, purchase or lease equipment for the Cafe.

Fixtures, Equipment, Furniture and Signs

2.7 Franchisee will use, in the construction and operation of the Cafe, only those brands, types or models of construction and decorating materials, fixtures, equipment, furniture and signs that Franchisor has approved for Cafés as meeting its specifications and standards for quality, design, appearance, function and performance. Franchisee further agrees to place or display at the premises of the Cafe only such signs, emblems, lettering, logos and display materials that are from time to time approved in writing by Franchisor. Franchisee may purchase approved types or models of construction and decorating materials, fixtures, equipment, furniture and signs from any supplier approved or designated by Franchisor (which may include Franchisor and/or its affiliates), which approval may not be unreasonably withheld. If Franchisee proposes to purchase any type or model of construction or decorating material, fixture, equipment, furniture or sign not then approved by Franchisor, and/or any such item from any supplier which is not then approved by Franchisor, Franchisee shall first notify Franchisor in writing and shall submit to Franchisor sufficient specifications, photographs, drawings and/or other information or samples for a determination by Franchisor of whether such brand or type of construction or decorating material, fixture, equipment, furniture or sign complies with its specifications and standards. Franchisor may, in its sole discretion, refuse to approve any such item(s) and/or supplier(s) that does not meet Franchisor's standards or specifications.

Cafe Opening

2.8 Franchisee will not open the Cafe for business until

A Franchisor determines that the Cafe has been constructed and equipped in accordance with approved plans and specifications,

B Franchisee and Franchisee's manager(s) have completed training to Franchisor's reasonable satisfaction,

C The Initial Franchise Fee and all other amounts due to Franchisor under this Agreement and any other related agreements to which Franchisee is a party have been paid,

D Franchisor has been furnished with copies of all insurance policies required by Article XII of this Agreement, or such other evidence of insurance coverage as Franchisor requests, and

E Franchisee has completed all preparations for the opening of the Cafe, as reasonably determined by Franchisor

2 9 Franchisee will use its best efforts to have the Cafe ready to open for business within eight (8) months after the date Franchisee's lease or sublease is executed Final approval by Franchisor of the opening of the Cafe shall be given in writing and shall be in Franchisor's reasonable discretion Franchisee will open the Cafe for business within ten (10) days after receipt of such written notice from Franchisor

Relocation of Cafe

2 10 To protect the Macchiato System, the Marks and the goodwill associated with the same, Franchisee may not relocate the Franchised Business without Franchisor's prior written consent Any such relocation shall be at Franchisee's sole expense, and Franchisor shall have the right to charge Franchisee for costs and expenses incurred by Franchisor in connection with any relocation If Franchisor consents to a relocation, Franchisee shall de-identify the former location in the manner described below in Section 2 12 and shall reimburse and indemnify and hold Franchisor harmless from any direct and indirect losses, costs and expenses including attorneys' fees, arising out of Franchisee's failure to do so If Franchisor consents to a relocation of the Franchised Business during the Term, Franchisee shall have twelve (12) months from the date of Franchisor's approval of the new location to secure the new location and to open and operate the Franchised Business at the new location

2 11 If Franchisee's lease or sublease for the premises of the Café terminates without fault of Franchisee, or if the premises are damaged, condemned or otherwise unusable, or if in the reasonable judgment of Franchisor and Franchisee there is a change in the character of the location of the Cafe sufficiently detrimental to its business potential to warrant its relocation, Franchisor shall grant permission to Franchisee for relocation of the Cafe to a location approved by Franchisor Any such relocation shall be at Franchisee's sole expense, and Franchisor shall have the right to charge Franchisee for costs and expenses incurred by Franchisor in connection with any relocation

2 12 In the event of a relocation of the Cafe, Franchisee shall promptly remove from the first Cafe premises, and discontinue using for any purposes, any and all signs, fixtures, furniture, posters, furnishings, equipment, menus, advertising materials, stationery supplies, forms and other articles which display any of the Marks or any distinctive features or designs associated with Macchiato Cafes Furthermore, Franchisee shall, at Franchisee's expense, immediately make such changes, modifications or alterations as may be necessary to distinguish the first location clearly from its former appearance and from other Macchiato Cafes and to prevent any possibility of confusion of the first location with a Macchiato Cafe by the public (including, without limitation, removal of all distinctive physical and structural features identifying Macchiato Cafés and removal of all distinctive signs and emblems) Franchisee shall, at Franchisee's expense, make such specific additional changes as Franchisor may reasonably request for this purpose If Franchisee fails to initiate immediately or complete such alterations within such period of time as Franchisor deems appropriate, Franchisee agrees that Franchisor or its designated agents may enter the premises of the first location and adjacent areas at any time to make such alterations, at Franchisee's sole risk and expense, without responsibility for any actual or consequential damages to the property of Franchisee or others, and without liability for trespass or other tort or criminal act Franchisee expressly acknowledges that Franchisee's failure to make such alterations will cause irreparable injury to Franchisor, and consents to entry, at Franchisee's expense, of an ex-parte

order by a court of competent jurisdiction authorizing Franchisor or its agents to take such action, if Franchisor seeks such an order. Compliance with the foregoing shall be a condition subsequent to Franchisor's approval of any relocation request by Franchisee, and in the event complete de-identification of the first Cafe premises is not promptly and completely undertaken, Franchisor may then revoke its permission for relocation and declare a default under this Agreement pursuant to Article XVII below.

ARTICLE III **PROPRIETARY MARKS AND GOODWILL**

3.1 When used in this Agreement, "Marks" mean the trademarks and service marks which are used to identify Macchiato Cafes and to distinguish it from that of any other business, and the trademarks, service marks, trade names, logos and commercial symbols as may be designated by Franchisor from time to time for use in connection with the System.

3.2 Franchisee is authorized to use the Marks, goodwill and trade secrets in the operation of the Cafe only at the location specified in Article I. Nothing in this Agreement shall be construed as authorizing or permitting their use at any other location or for any other purpose except as may be authorized in writing by Franchisor. Franchisee understands and agrees that the limited license to use the Marks granted hereby applies only to such proprietary marks as are designated by Franchisor, and which are not subsequently designated by Franchisor as being withdrawn from use, together with those which may hereafter be designated by Franchisor in writing. Franchisee expressly understands and agrees that Franchisee will not represent in any manner that Franchisee has acquired any ownership or equitable rights in any of Franchisor's Marks by virtue of the limited license granted hereunder, or by virtue of Franchisee's use of any of the Marks.

3.3 Franchisee acknowledges that Franchisor is the sole and exclusive licensee of all of the Marks, goodwill and trade secrets, and that Franchisee shall not register or attempt to register the Marks or to assert any rights in them other than as specifically granted in this Agreement.

3.4 At Franchisor's request, Franchisee shall assign, transfer or convey to Franchisor, in writing, all additional rights, if any, that may be acquired by Franchisee as a result of Franchisee's use of Marks.

3.5 Franchisee shall only use the Marks, logos, trade styles, color combinations, designs, signs, symbols and slogans of Franchisor, and only in the manner and to the extent specifically permitted by this Agreement or in any manuals, directives or memos (collectively referred to below as "Confidential Operations Manuals") prepared by Franchisor. Franchisee shall not use any confusingly similar Marks in connection with its franchise or any other business in which it has an interest.

3.6 Franchisor reserves the right to approve all signs, memos, stationery, business cards, advertising material forms and all other objects and supplies using Franchisor's Marks. All advertising, publicity, point of sale materials, signs, decorations, furnishings, equipment, or other materials using the Marks shall comply with this Agreement and the Confidential Operations Manuals, and Franchisee shall obtain Franchisor's approval prior to such use.

3.7 Franchisor reserves the right to (i) modify or discontinue licensing any of the Marks, (ii) add new names, marks, designs, logos or commercial symbols to the Marks and require that Franchisee use them and (iii) require that Franchisee introduce or observe new practices as part of the System in operating the Franchised Business. If at any time, Franchisor in its sole discretion, decides to modify or discontinue use of any Mark and/or to adopt or use one or more additional or substitute proprietary marks,

then Franchisee shall comply with any such instruction by Franchisor no later than thirty (30) days after notification thereof. In such event and at Franchisor's direction, Franchisee shall adopt, use and display only such new or modified Marks, and shall promptly discontinue the use and display of outmoded or superseded marks, at Franchisee's expense. Franchisee waives any claim arising from or relating to any proprietary mark change, modification or substitution. Franchisor will not be liable to Franchisee for any expenses, losses or damages sustained by Franchisee as a result of any proprietary mark addition, modification, substitution or discontinuation. Franchisee will not commence or join in any litigation or other proceeding against Franchisor for any of these expenses, losses or damages.

3 8 Upon the expiration, termination or non-renewal of this Agreement, Franchisee shall immediately cease using Franchisor's Marks, color combinations, designs, symbols or slogans and shall not use any trademarks or service marks that are confusingly similar to the Marks, and Franchisee shall execute such documents and take such action as Franchisor may deem necessary or appropriate to evidence this fact. After the effective date of expiration, termination or non-renewal, Franchisee shall not represent or imply that Franchisee is associated with Franchisor. To this end, Franchisee irrevocably appoints Franchisor or its nominee to be Franchisee's attorney-in-fact to execute, on Franchisee's behalf, any document or perform any legal act necessary to protect Franchisor's Marks from unauthorized use. Franchisee acknowledges and agrees that the unauthorized use of Franchisor's Marks will result in irreparable harm to Franchisor, for which Franchisor may obtain injunctive relief, monetary damages, reasonable attorneys' fees and costs.

3 9 Franchisee shall immediately notify Franchisor of any apparent infringement of or challenge to Franchisee's use of the Marks, or any claim, demand, or suit based upon or arising from the unauthorized use of, or any attempt by any other person, firm, or corporation to use, without authorization, or any infringement of or challenge to, any of Franchisor's Marks. Franchisee will immediately notify Franchisor of any other claim, demand or litigation instituted by any person, firm, corporation or governmental entity against Franchisor or Franchisee.

3 10 Franchisor shall undertake the defense or prosecution of any litigation concerning Franchisee that relates to any of Franchisor's Marks or that, in Franchisor's judgment, may affect the goodwill of the System, and Franchisor may, in such circumstances, undertake any other action which it deems appropriate, provided, however, Franchisor shall only be obligated to participate in such defense of Franchisee if Franchisor determines, in its sole discretion, that Franchisee's use of the Marks is proper in accordance with the terms of this Agreement. Franchisor shall have sole and complete discretion in the conduct of any defense, prosecution or other action it chooses to undertake. Franchisee shall execute those documents and perform those acts, which in the opinion of Franchisor, are necessary for the defense or prosecution of the litigation or for such other action as Franchisor may undertake.

3 11 In order to develop and maintain high uniform standards of quality and service and to protect the reputation and goodwill of Franchisor, Franchisee will do business and advertise using only the Marks designated by Franchisor. Franchisee shall not do business or advertise using any other name Franchisee is not authorized to, and shall not, use the name "Macchiato" by itself, as a part of the legal name of any corporation, partnership, proprietorship or other business entity to which Franchisee is associated, or with a bank account, trade account or in any legal or financial connection.

3 12 In order to preserve the validity and integrity of Franchisor's Marks, and to assure that Franchisee is properly employing them in the operation of Franchisee's business, Franchisor and its agents shall have the right at all reasonable times to inspect Franchisee's business, financial books and records, and operations. Franchisee shall cooperate with and assist Franchisor's representative in such inspection.

3 13 Franchisee shall be required to affix the ™ or ® symbol upon all advertising, publicity, signs, decorations, furnishings, equipment or other printed or graphic material employing the words "Macchiato" or any other of Franchisor's Marks, whether presently existing or developed in the future

3 14 Franchisee acknowledges that it does not have any right to deny the use of Franchisor's Marks to any other franchisees Franchisee shall execute all documents and take such action as Franchisor may request to allow Franchisor or other franchisees to have full use of the Marks

3 15 If, during the term of this Agreement, there is a claim of prior use of any of Franchisor's Marks in the area in which Franchisee is doing business, Franchisee, at Franchisor's discretion, shall use Franchisor's Marks in such a way to avoid a continuing conflict

3 16 If Franchisor determines, in its sole discretion, that Franchisee's use of the Marks is proper in accordance with the terms of this Agreement, Franchisor shall indemnify Franchisee against, and reimburse Franchisee for, all damages for which Franchisee is held liable in any proceeding in which Franchisee's use of any Mark pursuant to and in compliance with this Agreement is held to constitute trademark infringement, unfair competition or dilution, and for all costs reasonably incurred by Franchisee in the defense of any such claim brought against Franchisee or in any such proceedings in which he is named as a party, provided that Franchisee has timely notified Franchisor of such claim or proceedings, has otherwise complied with this Agreement, and has tendered complete control of the defense of such to Franchisor If Franchisor defends such claim, Franchisor shall have no obligation to indemnify or reimburse Franchisee with respect to any fees or disbursements of any attorney retained by Franchisee

3 17 During the term of this Agreement and any renewal or extension hereof, Franchisee shall identify itself as the owner of the Cafe in conjunction with any use of the Marks, including, but not limited to, on invoices, order forms, receipts, business stationery, contracts with all third parties or entities, as well as the display of such notices in such content and form at such conspicuous locations as Franchisor may designate in writing

ARTICLE IV **TERM AND RENEWAL**

4 1 Except as otherwise provided in this Agreement, the initial term of this franchise (the "Initial Term") shall be for five (5) years from the date of execution of this Agreement

4 2 Subject to the conditions specified in Section 4 3 below, Franchisee shall have the right to renew this Agreement for a period of five (5) years from the date of the expiration of the Initial Term

4 3 Franchisee's right of renewal pursuant to Section 4 2 above shall be subject to the following conditions precedent

A Neither this Agreement nor the lease or sublease agreement shall have been terminated for any reason, and the lease or sublease is renewable,

B Franchisee shall not be in default of any provision of this Agreement, any amendment hereof or successor hereto, any sublease agreement, or any other agreement between Franchisor or any subsidiary and/or affiliated corporation, and Franchisee has substantially complied with all of the terms and conditions of such agreements during their terms,

C Franchisee shall have served notice of its intention to exercise its right of renewal not less than twelve (12) months nor more than eighteen (18) months prior to the expiration of the Initial Term,

D Franchisee shall have effected the improvements to Franchisee's Cafe and its operations required by Franchisor pursuant to Section 4 4 below,

E Franchisee has satisfied all monetary obligations due and owing to Franchisor, any subsidiary of Franchisor and/or any affiliated corporations of Franchisor, and Franchisee has timely met these obligations throughout the term of this Agreement and any other agreement in effect between Franchisor and Franchisee, and any renewals thereof,

F Franchisee shall execute, upon renewal, Franchisor's then-current form of Franchise Agreement, which agreement shall supersede this Agreement in all respects and terms, and which may differ from the terms of this Agreement, including, without limitation, a higher royalty fee and higher advertising contribution,

G Franchisee shall execute a general release, in a form prescribed by Franchisor, on any and all claims against Franchisor, any subsidiary of Franchisor and/or affiliated corporation of Franchisor, and their respective officers, directors, agents and employees,

H Franchisee shall comply with Franchisor's then-current reasonable qualification and training requirements, and

I Franchisee shall remit to Franchisor a renewal fee equal to Twenty Thousand Dollars (\$20,000 00)

4 4 Within three (3) months of the receipt of a notice to renew from Franchisee pursuant to Section 4 3 hereof, Franchisor shall complete a renewal report specifying the modifications and improvements and repairs, if any, required by Franchisor and which Franchisee must make to Franchisee's Cafe which must be in conformity with the then existing standards, and specifications pertaining to Franchisee's Cafe

4 5 Franchisor expressly reserves the right to deny Franchisee's renewal in the event that Franchisee abandons Franchisee's Café and Franchisee ceases to operate and maintain Franchisee's Cafe in accordance with the terms of this Agreement

4 6 In the event Franchisee shall continue to operate Franchisee's Cafe following the expiration, termination or non-renewal of this Agreement for any reason, with the express or implied consent of Franchisor, such continuation shall be construed to be an extension of the term of this Agreement only from month-to-month, terminable by either party on no more than thirty (30) days' notice to the other party and otherwise in accordance with all of the provisions of this Agreement

ARTICLE V

INITIAL AND CONTINUING FEES PAYABLE TO FRANCHISOR

5 1 In consideration of the execution of this Agreement and Franchisor's granting to Franchisee the franchise covered hereby, Franchisee agrees to pay to Franchisor an Initial Franchise Fee of Thirty Eight Thousand Dollars (\$38,000 00) (the "Initial Franchise Fee"), payable upon the execution

of this Agreement, which sum shall be deemed fully earned by Franchisor upon receipt thereof and is non-refundable, except as may be set forth in this Agreement

5.2 In consideration of this franchise granted by this Agreement, the services to be provided by Franchisor, the right to prepare and sell the Products to the general public, and for the use of the Marks during the Initial Term and any subsequent renewals, Franchisee shall pay to Franchisor, in addition to the Initial Franchise Fee, a royalty fee equal to five percent (5%) of the gross sales generated by, from, or through Franchisee's Cafe ("Royalty Fee")

5.3 For the purposes of determining the royalties to be paid, "Gross Sales" shall mean the total selling price of all services and products and all income of every other kind and nature related to the Cafe (including, without limitation, income related to catering and delivery activities, and any sales or orders of food products or food preparation services provided from or related to the Cafe, including without limitation, sales made through third party companies, such as Uber Eats, Eat24, and Door Dash, or income received from any business interruption insurance), whether for cash or credit and regardless of collection in the case of credit. In the event of a cash shortage, the amount of Gross Sales shall be determined based on the records of the electronic cash register system and any cash shortage shall not be considered in the determination. Gross Sales shall not include the following:

A Receipts from the operation of any public telephone installed in the Cafe, or products from vending machines located at the Cafe, except for any amount representing Franchisee's share of such revenues,

B Sums representing sales taxes collected directly from customers, based upon present or future laws of federal, state or local governments, collected by Franchisee in the operation of the Cafe, and any other tax, excise or duty which is levied or assessed against Franchisee by any federal, state, municipal or local authority, based on sales of specific merchandise sold at or from the Cafe, provided that such taxes are actually transmitted to the appropriate taxing authority,

C Returns to shippers or manufacturers, and

D Proceeds from isolated sales of trade fixtures not constituting any part of Franchisee's products and services offered for resale at the Cafe nor having any material effect upon the ongoing operation of the Cafe required under this Agreement

5.3.1 Franchisor may, from time to time, authorize, in writing, certain other items to be excluded from Gross Sales. Any such permission may be revoked or withdrawn at any time in writing by Franchisor in its discretion. In addition to the foregoing, the following are included within the definition of "Gross Sales" described except as noted below:

(1) The full value of meals furnished to Franchisee's employees as an incident to their employment, except that the value of any discounts extended to such employees may be credited against Gross Sales during the reporting month in which the meals were furnished for the purpose of determining the amount of Gross Sales upon which the Royalty Fee is due, and

(2) All proceeds from the sale of coupons, gift certificates or vouchers, provided that at the time such coupons, gifts certificates or vouchers are redeemed the retail price thereof may be credited against Gross Sales during the reporting month in which such coupon, gift certificate or voucher is redeemed for the purpose of determining the amount of Gross Sales upon which the Royalty Fee is due

5 4 Royalty Fees are due and payable on the 7th day of each month ("Payment Date"), relating to the prior calendar month Franchisee shall remit Royalty Fees, Advertising Fees and any other monies owed to Franchisor under this Agreement via electronic funds transfer or other comparable means Franchisee shall comply with the procedures established by Franchisor and/or to perform such acts and deliver and execute the Authorization to Honor Charges Drawn By and Payable To Macchiato Group, Inc including Checks and Electronic Transfers (Exhibit "H") and any other documents as may be necessary to assist in or accomplish such electronic method of payment

In the event any electronic funds transfer is not honored by Franchisee's bank for any reason, Franchisee shall be responsible for that payment, plus a service charge applied by Franchisor and the bank, if any Franchisee shall, at all times throughout the term of this Agreement, maintain a minimum balance of Five Thousand Dollars (\$5,000 00) in Franchisee's bank account against which such electronic funds transfers shall be drawn for the Cafe operated under this Agreement

5 5 Royalty Fees or any and all other payments provided for in this Agreement not received by Franchisor within three (3) days of the Payment Date shall be subject to a late charge equal to five percent (5%) of payment due, together with interest on a daily basis at a rate equal to two percent (2%) per month, or the then highest legal rate, whichever is less

5 6 Acceptance by Franchisor of the payment of any Royalty Fee or any and all other payments provided for in this Agreement shall not be conclusive or binding on Franchisor with respect to the accuracy of such payment until two (2) years after the effective date of termination or non-renewal of this Agreement Acceptance of any payment on account of Royalty Fees or any and all other payments provided for in this Agreement does not constitute any waiver of Franchisor's rights under Article XVIII below

5 7 Franchisee's obligations for the full and timely payment of the Royalty Fees and all other amounts provided for in this Agreement shall be absolute, unconditional and fully earned by Franchisor, except in those instances where Franchisor is in breach under this Agreement and has failed to cure such breach although obligated to do so Franchisee shall not delay or withhold the payment of all or any part of the fees for any reason, put the fees in escrow, or set-off same against any and all claims or alleged claims Franchisee may allege against Franchisor

ARTICLE VI

TRAINING AND COMMENCEMENT OF BUSINESS

6 1 During the time period prior to the opening of Franchisee's Cafe, but not less than two weeks prior thereto, Franchisee shall attend Franchisor's initial training program, which shall be conducted at Franchisor's headquarters in Hacienda Heights, California or at another location designated by Franchisor, and complete the training program to Franchisor's satisfaction in its sole discretion Franchisee shall be responsible for all travel and living expenses which Franchisee and Franchisee's manager incur in connection with the initial training program Further, the initial training program is for Franchisee's personnel up to four (4) people and Franchisee shall be charged an additional fee for the training of additional personnel During the training program, Franchisee shall receive instruction, training and education in the operation of the Cafe and indoctrination into the System Such training program shall include, but not be limited to, instructing Franchisee in the preparation and sale of Franchisee's proprietary Menu Items, the Products and quality control techniques and procedures

6 2 Franchisee shall attend such periodic refresher and supplemental training programs or meetings at such locations as Franchisor may from time to time direct and complete such training

programs to Franchisor's satisfaction in its sole discretion. All expenses of Franchisee incurred in connection with attendance at any such refresher or supplemental training programs or meetings shall be borne solely by Franchisee. Franchisor reserves the right to charge its then-current tuition rate for such additional training.

6.3 At all times during the term of this Agreement or any renewal thereof, Franchisee shall have a supervisor managing the operation of the Cafe who has successfully completed Franchisor's training program to Franchisor's satisfaction in its sole discretion and is able to operate the Cafe in accordance with this Agreement and Franchisor's standards. Franchisee shall be responsible for any additional training for replacement supervisors.

6.4 Franchisee's employees may be trained by Franchisee, or at Franchisee's request, and subject to the availability of Franchisor's personnel, Franchisor will train Franchisee's additional personnel at Franchisor's headquarters at Franchisor's then-current tuition rate. Franchisee is responsible for all expenses including transportation to and from the training site, as well as lodging, meals, and wages during training, incurred in training Franchisee's additional personnel. All training materials provided to Franchisee by Franchisor shall at all times remain Franchisor's property and Confidential Information, and Franchisee agrees not to challenge Franchisor's or its affiliates' title or rights in or to the training materials. Franchisee may not make any disclosure, duplication or other unauthorized use of any portion of the training materials.

ARTICLE VII

OBLIGATIONS OF FRANCHISOR

7.1 In order to assist Franchisee in constructing Franchisee's Cafe, Franchisor shall furnish to Franchisee a set of prototype or proto-style plans and specifications for a typical Cafe, including requirements for exterior and interior design, layout, equipment and sign placement and decor scheme, all as included in the System.

7.2 Franchisor shall assist Franchisee in Franchisee's selection of and contracting with appropriate architects, engineers, contractors, and subcontractors for construction of all leasehold improvements at Franchisee's Cafe in accordance with the plans and specifications prepared by Franchisee's architect.

7.3 Franchisor shall make available to Franchisee any further assistance that Franchisor may deem is required, based on the experience and judgment of Franchisor, in pre-opening, opening and initial business operation of Franchisee's Cafe, which assistance shall conform to that furnished to other existing franchisees as further defined in the Confidential Operations Manual. Franchisor shall have the right to determine the time or times at which such assistance shall be available to Franchisee.

7.4 Franchisor shall make available to Franchisee a grand opening advertising program and ongoing local marketing programs for Franchisee's use.

7.5 Franchisor shall maintain an advisory relationship with Franchisee, including ongoing telephone consultation to aid in the proper and effective operation of the System, the frequency and duration of which shall be in the sole discretion of Franchisor in accordance with Confidential Operations Manual. Such operating assistance may consist of advice and guidance with respect to

A. Methods and operating procedures utilized by Cafes,

B Additional food and beverage products and services authorized for sale by Cafes,

C Selection, purchasing and preparation of food products, beverages and other approved products, materials and supplies, and

D The establishment and operation of administrative, bookkeeping, accounting, inventory control, sales and general operating procedures for proper operation of Cafés

7 6 Franchisor or its designees or agents shall visit and inspect, from time to time, Franchisee's Cafe and any motor vehicle used in connection with the Café, evaluate the proper execution of the System, and confer with Franchisee and Franchisee's employees in order to assist in the proper business operation of Franchisee's Cafe. Franchisor or its designees or agents shall have the absolute right to make inspections by visiting, taking photographs and audio/video recordings, interviewing employees and customers, and/or evaluating any aspect of the Franchisee's Café, at such times and frequencies, during normal business hours, as Franchisor may determine in its discretion. Franchisee will cooperate with Franchisor's representative in such inspections, render such assistance to them as they may reasonably request and immediately correct any failure to comply with the System and this Agreement as brought to Franchisee's attention by such representative (including, without limitation, immediately ceasing and preventing the further use of any products, equipment, inventory, advertising materials, supplies, vehicles, or other items that do not conform to Franchisor's then-current specifications, standards or requirements)

7 7 Franchisor shall use its reasonable efforts to require maintenance of high and uniform standards in the execution of the System at all Cafes utilizing the System, in order to protect and enhance the reputation of Franchisor and its Marks

7 8 In order to insure that the distinguishing characteristics of the System are uniformly maintained, Franchisor may from time to time establish standards for certain proprietary food items, products, equipment, commodities and supplies to be used by Franchisee in the execution of the System and may, in conjunction therewith, develop new proprietary food items, products, programs and develop new equipment and new techniques which Franchisee shall be required to use and/or purchase in the operation of Franchisee's Cafe

7 9 Neither Franchisor's approval of a specific location for Franchisee's Cafe, nor any other service provided by Franchisor pursuant to this Article shall be deemed a representation, warranty or judgment by Franchisor as to the likely success of Franchisee's Cafe at such location or as to the relative desirability of such location in comparison to others that might have been available to Franchisee

ARTICLE VIII

OBLIGATIONS AND DUTIES OF FRANCHISEE

8 1 Franchisee shall make any grand opening advertising expenditures as may be required by Franchisee's landlord or by the terms of Franchisee's lease or sublease

8 2 Franchisee or a designated and approved manager shall, during the term of this Agreement and any renewal thereof, devote full time, energy and best efforts to the management and operation of Franchisee's Cafe, except as otherwise approved in writing by Franchisor, including, but not limited to, keeping the Cafe operating and open for business at the times specified in the Confidential Operations Manuals or as required by Franchisee's lease or sublease

8.3 At all times, Franchisee shall maintain, at Franchisee's own expense the interior and exterior of Franchisee's Cafe and all fixtures, furnishings, signs and equipment in the highest degree of cleanliness, orderliness, sanitation and repair, as determined by Franchisor. Franchisee shall make no material alteration, addition, replacement or improvement in or to the interior or exterior of the Cafe without the prior written consent of Franchisor, except that Franchisee shall be required to periodically renovate, refurbish and update Franchisee's Cafe so that it is in substantial conformity with Franchisor's then-current Cafe design. Such equipment shall include, but not be limited to, a computerized cash register system designated by Franchisor.

8.4 From time to time, Franchisee will allow Franchisor to obtain and take samples of ingredients, products and supplies from Franchisee's Cafe for testing by Franchisor in order to assure that Franchisee complies with Franchisor's reasonable standards and specifications.

8.5 Franchisee will maintain a high moral and ethical standard in the operation and conduct of Franchisee's Cafe so as to create and maintain goodwill among the public for the name "Macchiato" and supervise and evaluate the performance of its staff to insure that each renders competent, efficient and quality service to the general public.

8.6 Franchisee recognizes that it is essential to the proper marketing of the Cafe, and to the preservation and promotion of its reputation and acceptance by the public at large, that standards of quality be maintained. As part of the consideration for this Agreement, Franchisee will at all times sell to retail customers only, or offer for sale to retail customers only, only those products and services that meet the reasonable specifications and standards from time to time approved in writing by Franchisor, as permitted under this Agreement, and as permitted under the lease or sublease. In furtherance thereof, Franchisee shall be required to purchase only from Franchisor or its designee any Trade Secret Food Products and Proprietary System Assets, comprised of certain kitchen equipment and instruments which are proprietary in nature and unique to the Cafe, that are specified by Franchisor from time to time. Franchisor reserves the right in its discretion to derive revenue as a result of Franchisee's purchases of any items used in connection with the operation of the Cafe and to use such revenue as it sees fit in its sole discretion.

8.7 In connection with the operation of Franchisee's Cafe, Franchisee is required to purchase certain packaging supplies, paper goods and other product service items for the preparation and service of the Products which bear any of the Marks ("Branded Products"). In addition to the Trade Secret Food Products, Franchisee shall be required to purchase from Franchisor, its designee or Franchisor-approved vendor any Branded Products at then-current prices established from time to time. Franchisee is also required to purchase certain types, models and brands of equipment, fixtures and furniture, which are not specified as a Proprietary System Asset, as provided in the Confidential Operations Manual ("System Items") from Franchisor, its designee or Franchisor-approved vendor. In the event that Franchisee desires to purchase any Branded Products or System Items from sources other than Franchisor, its designee or Franchisor-approved vendor, Franchisee shall so request in writing, specifying the item or product Franchisee desires to purchase from another source not already approved by Franchisor, including samples, specifications and sufficient information on the source to enable Franchisor to determine whether the item or product meets with Franchisor's quality assurance requirements and specifications. Upon submission of the requested information to Franchisor, Franchisor shall conduct its evaluation, taking into consideration the product quality, delivery frequency and reliability, service standards as well as financial capability and credit of the identified supplier. Franchisor shall charge a reasonable fee to Franchisee for conducting this evaluation. Franchisor shall conduct its evaluation and advise Franchisee in writing of its decision within thirty (30) days from the date on which Franchisor received the requested information and materials sufficient to commence its evaluation. Franchisor and Franchisee acknowledge

that Franchisor has no obligation to approve any request for a new supplier, product or item, but that Franchisor shall not unreasonably withhold its approval in this process

8 8 In connection with the operation of Franchisee's Cafe, Franchisee is required to purchase certain other food products, beverages and other similar products and other items offered for consumption to the retail purchaser as set forth in the Confidential Operations Manual. Franchisee's obligation under this Section 8 8 shall be satisfied so long as Franchisee purchases the stated products from sources of supply approved by Franchisor, subject to the same meeting the strict specifications of Franchisor which may be changed, modified or updated from time to time. Nothing in this Agreement shall be construed as an attempt to unreasonably limit the sources from which Franchisee may procure such food products, beverages, products and other similar items. Rather, Franchisor intends that such items conform to Franchisor's strict standards and strict specifications of consistent quality and uniformity. Nothing contained in this Agreement shall be deemed to require Franchisor to approve an inordinate number of suppliers of a given item which, in the reasonable judgment of Franchisor, would result in higher costs generally to Franchisee or prevent effective and economical supervision of suppliers by Franchisor. Requests for approval of additional suppliers of non-Trade Secret Food Products or non-Branded Products shall be in writing and shall contain such information as Franchisor may reasonably request. Franchisor shall charge a reasonable fee to Franchisee for considering requests for approval. Franchisor shall, within thirty (30) days, notify Franchisee whether or not such proposed supplier is approved. Franchisor may impose limits on the number of suppliers for any ingredient or food or beverage item used or served by the Cafe.

8 9 Franchisee acknowledges that in purchasing or leasing supplies, equipment and/or materials from Franchisor or from suppliers approved by Franchisor, **FRANCHISOR EXPRESSLY DISCLAIMS ANY WARRANTIES OR REPRESENTATIONS AS TO THE CONDITION OF SAME, INCLUDING WITHOUT LIMITATION, EXPRESS OR IMPLIED WARRANTIES AS TO MERCHANTABILITY OR FITNESS FOR ANY INTENDED PURPOSE. FRANCHISEE AGREES TO LOOK SOLELY TO THE MANUFACTURER OR SUPPLIER OF SAME FOR ANY REMEDY OR LIABILITY IN THE EVENT OF ANY DEFECTS THEREIN.**

8 10 Franchisee shall not, during the term of this Agreement or thereafter, communicate, divulge, or use for the benefit of any other person, persons, partnership, association or corporation any confidential information, knowledge, recipes, food preparation methods, customer lists, or know-how concerning the methods of operation of the business franchised under this Agreement which may be communicated to Franchisee, or of which Franchisee may be apprised, by virtue of Franchisee's operation under the terms of this Agreement. Franchisee shall divulge such confidential information only to such of its employees as must have access to it in order to operate the Cafe. Any and all information, knowledge and know-how, and other data which Franchisor designates as confidential, shall be deemed confidential for purposes of this Agreement, except information which Franchisee can demonstrate came to Franchisee's attention prior to disclosure thereof by Franchisor, or which, at the time of disclosure by Franchisor to Franchisee, had become a part of the public domain, through publication or communication by others, or which, after disclosure to Franchisee by Franchisor, becomes a part of the public domain, through publication or communication by others.

8 11 Franchisee shall only sell or offer for sale such products as described in this Agreement, and Franchisee must obtain Franchisor's written approval for all contemplated menu changes and all additions to and/or deletions of items sold in Franchisee's Cafe.

8 12 Franchisee shall comply with all the terms, conditions, requirements, covenants and agreements set forth in this Agreement, and any renewals thereof, and supply Franchisor with such

information (in addition to that otherwise provided for in this Agreement) as may be reasonably requested by Franchisor

8 13 Franchisee shall use a standard menu and menu format as required by Franchisor. Franchisee may employ any reputable printer to reproduce Franchisee's menus using Franchisor's format and specifications. This provision shall not constitute a license of any copyright or trademark to the prospective printer of such menus. Any changes in the menu used at the Cafe shall be approved in writing by Franchisor prior to use. At Franchisor's discretion the standard menu format may contain advertising reference to other Cafes.

8 14 Franchisee shall promptly pay when due all taxes levied or assessed, including, without limitation, federal income taxes, sales taxes, unemployment taxes and all indebtedness to Franchisor incurred by Franchisee in the conduct of the business licensed by this Agreement.

8 15 Franchisee shall comply with all federal, state and local laws, rules and regulations, and shall timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the business licensed by this Agreement, including, without limitation, operation licenses, licenses to do business and fictitious name registration.

8 16 Franchisee shall notify Franchisor, in writing, within five (5) days of the commencement of any action, claim, suit or proceeding, and of the issuance of any order, writ, injunction, suit or proceeding, award or decree of any court, agency or other governmental instrumentality which may adversely affect the operation or financial condition of the Cafe.

8 17 Franchisee shall not pledge Franchisor's credit or bind Franchisor to any obligation, nor shall it hold itself out as being authorized to do so.

8 18 Franchisee must, in accordance with Franchisor's standards and to the extent Franchisor designates from time to time, recruit, train and develop all employees, independent contractors, and any other personnel or staff as may be needed ("Personnel"). When hiring Personnel, Franchisee shall use its best efforts to hire qualified and competent employees. Franchisee is responsible for making sure all Personnel are capable of performing their duties in accordance with standards. Franchisee is solely responsible for the supervision of its Personnel and setting the schedule thereof. Franchisee will decide the compensation to be paid to its Personnel. Franchisor will not be responsible for payment of any compensation, salaries, benefits and employment-related liabilities to Franchisee or its Personnel. Franchisee is solely responsible for all hiring and firing decisions as well as all training, establishing remuneration, compliance with wage and hour requirements, personnel policies, benefits, recordkeeping, supervision and discipline of employees regardless of whether Franchisee has received advice from Franchisor on these subjects or not. Further, Franchisee hereby acknowledge and agree that

A Franchisee's employees are employed exclusively by Franchisee and are not employed, jointly employed or co-employed by Franchisor and Franchisee must inform its employees verbally and on all written documentation outlining such employment (including any employee handbooks) that Franchisee is the employer of such employees and that Franchisor is not the employer of Franchisee's employees.

B Each of Franchisee's employees are under the exclusive dominion and control of it and never under the direct or indirect control of Franchisor in any fashion whatsoever.

C Any minimum staffing requirements established by Franchisor is solely for the purpose of ensuring that the Cafe is at all times staffed at those levels necessary to operate it in

conformity with the System and the Menu Items, services, standards of quality and efficiency, and other Macchiato brand attributes known to and desired by the consuming public and associated with the Marks

D Franchisee may staff the Cafe with as many employees as it desires at any time so long as our minimal staffing levels are achieved

E Any recommendations Franchisee may receive from Franchisor regarding salaries, hourly wages or other compensation for employees are recommendations only, designed to assist Franchisee to efficiently operate the Café, and that Franchisee is entirely free to disregard such recommendations regarding such employee compensation

F Any training provided by Franchisor for Franchisee's employees is geared to impart to those employees, with its ultimate authority, the various procedures, protocols, systems and operations of a Macchiato Cafe and in no fashion reflects any employment relationship between the Franchisor and Franchisee's employees

G Franchisee shall require all personnel employed by Franchisee to wear standard related uniforms and attire during business hours in order to further enhance Franchisor's product and format Franchisee shall be permitted to purchase such uniforms and attire from manufacturers or distributors approved by Franchisor, which uniforms and attire must be in strict accord with Franchisor's design and other specifications

H Should a third party ever assert that Franchisor is the employer, joint employer or co-employer of any of Franchisee's employees in any private or government investigation, action, proceeding, arbitration or other setting, Franchisee agrees to assist Franchisor in defending said allegation, including (if necessary) appearing at any venue to testify on Franchisor's behalf (and, as may be necessary, submitting Franchisee to depositions, other appearances and/or preparing affidavits dismissive of any allegation that we are the employer, joint employer or co-employer of any of your employees) To the extent Franchisor is the only named party in any such investigation, action, proceeding, arbitration or other setting to the exclusion of Franchisee, should any such appearance by Franchisee be required or requested by Franchisor, Franchisor will recompense Franchisee the reasonable costs associated with Franchisee's appearance at any such venue

8 19 Franchisor and Franchisee understand and agree that the operation of the Cafe, maintenance of its premises and equipment, conduct and appearance of its personnel, and the preparation and sale of products therefrom are all regulated by governmental statutes and regulations To this end, Franchisee owes an obligation to the patrons of Franchisee's Cafe, Franchisor, and to Franchisee, to fully and faithfully comply with all those applicable governing authorities If any product dispensed at Franchisee's Cafe evidences adulteration from the standards of Franchisor's food items, or is in violation of applicable law or regulations, or in the event the food items, premises, equipment, personnel or operation of the Cafe fail to be maintained in accordance with the governmental requirements referred to above, Franchisee shall immediately notify Franchisor and provide all relevant information requested by Franchisor, close Franchisee's Cafe, terminate selling operations at the Cafe, destroy all contaminated or adulterated products and eliminate the source thereof, and remedy all unsanitary conditions present, reopening for business only after Franchisor's inspection and provided that laboratory analysis from samples obtained for that purpose by Franchisor evidence a compliance with the applicable governmental requirements and with the standards of Franchisor If Franchisee or any of Franchisee's agents or employees fails or refuses to comply with all of the above remedial measures or in the event of any repetition of any adulteration or palming off or failure of sanitation in the Cafe

A Franchisee shall pay the costs and expenses, including attorneys' fees, of both parties, incurred in enforcing the provisions of this Subsection or any provision of this Franchise Agreement in obtaining Franchisee's compliance with the Agreement. The remedies set forth in this paragraph are in addition to and not in substitution for those set forth in Article XXIII of this Franchise Agreement.

B In furtherance of the foregoing, Franchisee must submit copies of all health, sanitation or other regulatory agency inspection reports to Franchisor immediately upon receipt thereof.

8 20 Franchisor may, from time to time, conduct market research and testing to determine consumer trends and the salability of new food products and services. Franchisee will cooperate by participating in Franchisor's market research programs, test marketing new food products and services in the Cafe, and providing Franchisor with timely reports and other relevant information regarding such market research. In connection with any such test marketing, Franchisee shall purchase a reasonable quantity of the tested products and effectively promote and make a reasonable effort to sell such products.

8 21 Franchisee shall be absolutely prohibited from having any vending machines, lottery games or games of chance, newspaper racks, juke boxes, gum or candy machines, games, pinball machines, pay telephones, video games, rides or other mechanical or electronic devices installed or operated at the Cafe.

8 22 Franchisee must provide accurate, complete and full disclosure of the books and accounts and give Franchisor or its designee direct access to any third parties through which revenue is generated, including but not limited to, Uber Eats, Postmates, Eat24, and Door Dash. Franchisee shall permit Franchisor or Franchisor's designee to enter the Franchised Business and/or to examine any motor vehicle used in connection with the Franchised Business, at Franchisor's discretion, at any time with or without prior notice to Franchisee, for purposes of conducting inspections, taking photographs and audio/video recordings, interviewing employees and customers, and/or evaluating any aspect of the Franchised Business. Franchisee shall cooperate fully with Franchisor or its agents or representatives in such inspections by rendering such assistance as they or Franchisor may reasonably request. Upon notice from Franchisor or Franchisor's agents or representatives, and without limiting Franchisor's other rights under this Franchise Agreement, Franchisee shall immediately correct any deficiencies detected during such inspections, including, without limitation, immediately ceasing and preventing the further use of any products, equipment, inventory, advertising materials, supplies, vehicles, or other items that do not conform to our then-current specifications, standards or requirements. In the event Franchisee fails or refuses to correct such deficiencies, Franchisor shall have the right to enter upon the premises of the Franchised Business, without being guilty of trespass or any other tort, for the purpose of making or causing to be made such corrections as may be required, at Franchisee's sole expense which Franchisee agrees to pay upon demand. Franchisor may from time to time develop and implement policies relating to inspection of Macchiato Cafes that may vary from, or be more lenient than, the foregoing requirements. Franchisee hereby agrees to follow them. If Franchisee has previously failed to meet our standards at your Franchised Business, then Franchisor may direct a third party we choose to conduct a third inspection and report.

8 23 Following the Opening Date of the Franchised Cafe, if any inspection of the Franchised Cafe by Franchisor indicates any deficiency or unsatisfactory condition at the Franchised Cafe, Franchisor will notify Franchisee in writing of the deficiencies and Franchisee shall promptly correct, remedy or repair the deficiency or unsatisfactory condition. In addition, if any inspection indicates any deficiency or unsatisfactory condition which requires a re-inspection of the Franchised Cafe within a period of thirty (30) days, Franchisee shall pay Franchisor, upon demand, the sum of \$500 for each re-inspection of the

Franchised Cafe and shall, in addition, reimburse Franchisor for its out of pocket expenses for the re-inspection, including for transportation costs, food, lodging and similar costs

8 24 Franchisee must, at its sole cost, purchase, use, maintain and update Franchisee's software, computer and other POS systems that meet Franchisor's specifications and requirements. There are no contractual limitations on the frequency and cost of upgrades and updates to the systems or programs. Franchisee must comply with Franchisor's then-current terms of use policies and any other requirements regarding any inter/intranet sites Franchisor establishes for Macchiato Cafes. Franchisee shall maintain its POS system in good working order at all times, share the login information with Franchisor, and upgrade or update the system during the term of the Franchise Agreement, as Franchisor may require. The POS system shall allow Franchisor to communicate with Franchisee, and poll and review the results of the Franchised Business' operations, including without limitation, sales data, consumer trends, food and labor costs, and other financial information. Franchisor may distribute the collected data on a confidential basis to its network of franchisees. Franchisor reserves the right to replace its designated supplier(s) for the POS system as it deems necessary at its discretion.

8 25 Franchisor may introduce to the Macchiato System additional computer software and hardware (including POS and additional back office systems) which Franchisee must purchase, use, maintain and update at Franchisee's expense, as specifications and requirements may be modified over time. In some cases, these components may only be available through Franchisor or its approved vendors. Franchisee will be responsible for paying all supplier and/or licensor (which may include Franchisor) charges for use, maintenance, support and/or updates to any future required systems. Franchisor does not have a contractual obligation under this Franchise Agreement to provide any maintenance, repairs, upgrades, or updates on any software or hardware. There are no contractual limitations on the frequency and cost of upgrades and/or updates to the systems or programs. Franchisor does not warrant or have any responsibility for the software or hardware Franchisee must obtain. Any warranty Franchisee may have on equipment or software will be limited to that provided by the applicable manufacturer or licensor.

8 26 Subject to applicable law, following the Opening Date of the Franchised Cafe, Franchisor shall have the right to establish pricing guidelines for the Menu Items and, subject to applicable law, Franchisee shall comply with and be bound by, prices which may be recommended, suggested or advertised by Franchisor. Subject to applicable law, Franchisee shall honor the terms of all promotional or discount programs that Franchisor may offer to the public for Macchiato Cafes and shall comply with all pricing policies that Franchisor may specify, including minimum and maximum pricing policies, minimum advertised price policies and unilateral price policies. Franchisee shall also provide products and services designated by Franchisor on terms Franchisor specifies, including free-of-charge. In addition, Franchisee shall conduct friends and family, soft-opening and other events and promotions at the Franchised Cafe as required and directed by Franchisor and shall provide products and services designated by Franchisor to the public in the manner and at the prices Franchisor specifies, including free-of-charge. Franchisee shall participate in all gift certificate and/or gift card administration programs as may be designated by Franchisor from time to time. Franchisee shall honor all coupons, gift certificates, gift cards and other programs or promotions as directed by Franchisor. Franchisee shall fully participate in all guest loyalty or frequent customer programs now or in the future adopted or approved by Franchisor. Franchisee shall not issue coupons or discounts of any type for use at the Franchised Cafe except as approved by Franchisor in writing, which may be withheld in Franchisor's sole and absolute discretion.

8 27 If Franchisee is an individual, he or she must devote full time and attention to supervising all administrative and operational activities of the Franchised Cafe at the Franchised Location. If a legal entity owns the franchise rights, like a corporation, partnership or limited liability company, the person

who owns a controlling interest in the entity's equity or voting rights, or a general partner, must devote full time and attention to franchise activities, unless otherwise agreed in writing. Franchisee must respond to Franchisor's communications and requests for information within time frames Franchisor requests. Franchisee must staff its Macchiato Cafe with at least one (1) "Approved Manager." An "Approved Manager" is a full-time employee with management responsibilities who has successfully completed the manager training segment of the initial training program and any mandatory supplemental management classes.

ARTICLE IX

ADVERTISING AND PROMOTIONAL ACTIVITIES

9.1 Recognizing the value of marketing and the importance of the standardization of promotions and public relations programs to the furtherance of the goodwill and public image of the System and the Marks, Franchisee will contribute to a system-wide advertising and promotional fund (the "Fund") on a monthly basis during the term of this Agreement an amount Franchisor determines that will not exceed two percent (2%) of Franchisee's Gross Sales.

9.2 The Fund will be maintained and administered as follows:

9.2.1 Franchisee will contribute to the Fund monthly by electronic transfer (as specified in the Confidential Operations Manual) based on Franchisee's Gross Sales for each preceding month. During any period of business interruption, Franchisee will continue to make monthly contributions based on Franchisee's average monthly payment during the two (2) month period immediately preceding the period of business interruption.

9.2.2 Any Franchisor-owned Macchiato Cafes will make contributions to the Fund on a basis at least equal to that described in Section 9.1.

9.2.3 Franchisor will direct all advertising and promotional programs, with the sole discretion of approval over agencies, spokespersons, creative concepts, materials, and media placements and allocations used in the programs. The Fund will establish and maintain an on-line presence. Franchisee agrees that the Fund is intended to maximize general public recognition and acceptance of the Marks for the benefit of the System, and that Franchisor and its designees undertake no obligation in administering the Fund to make expenditures for Franchisee that are equivalent or proportionate to Franchisee's contributions, or to ensure that Franchisee benefits directly or pro rata from the placement of advertising. Further, Franchisee agrees that the Fund does not constitute a trust, and that Franchisor is not a fiduciary with respect to such amounts received in the Fund. Franchisor is not obligated to expend funds for the marketing and advertising programs in excess of the Marketing Fee received from all franchisees.

9.2.4 Franchisee agrees that the Fund may be used to meet the costs of researching, preparing, maintaining, administering and directing advertising and promotional materials and programs (including the costs of preparing and conducting television, radio, magazine, newspaper, outdoor billboard, direct mail and coupon advertising campaigns and other public relations activities, employing advertising agencies, social media initiatives, providing a toll-free number for prospective customers to call for referral purposes, providing promotional brochures and other marketing materials to franchisees in the System, and costs of Franchisor's personnel and other departmental costs for advertising that Franchisor administers or prepares internally). All sums contributed to the Fund will be maintained in a separate account from Franchisor's general funds and will not be used to defray Franchisor's general operating expenses, except for reasonable administrative costs and overhead incurred in activities related

to the administration or direction of the Fund, including but not limited to, the cost of providing accounting, collection, bookkeeping, reporting and legal services, and salary costs of employees working for the Fund

9 2 5 If Franchisor spends less than the total of all contributions to the Fund during any fiscal year, it has the right to retain those contributions for use in subsequent years. If Franchisor spends more than the contributions accumulated in the Fund during any fiscal year, it will have the right to receive from the Fund reimbursement or credit during the same or subsequent years to the extent of the excess expenditure

9 2 6 An unaudited summary report on the operation of the Fund will be prepared annually and will be made available to Franchisee on request ninety (90) to one hundred twenty (120) days after fiscal year end. Franchisor is not required to have the Fund statements audited. Franchisor will have the right to cause the Fund to be incorporated or operated through an entity separate from Franchisor at such time as it deems appropriate, and such successor entity will have all Franchisor's rights and duties

9 2 7 Although the Fund is intended to be of perpetual duration, Franchisor retains the right to terminate the Fund. The Fund will not be terminated, however, until all contributions have been used for the purposes described above or returned to contributors on a pro rated basis

9 2 8 Franchisee authorizes Franchisor to collect, for remission to the Fund, any advertising or promotional monies or credits offered by any supplier based upon Franchisee's purchases. Any advertising or promotional monies or credits Franchisor collects from any supplier based upon Franchisee's purchases will not be credited toward Franchisee's required contribution to the Fund

9 2 9 Franchisor may establish an advertising council of franchisees. If established, the council will advise Franchisor on advertising policies, and Franchisees will elect the members of the council. The council will be advisory and have no operational or decision-making power. The council will operate under its own by-laws, but Franchisor will have the right to change or dissolve the council

9 3 Franchisee must obtain and maintain a bold listing in the white pages directory (or equivalent) servicing Franchisee's area under the name "Macchiato" or any other name designated by Franchisor. If other Macchiato Cafes are located nearby, Franchisee must participate in any local advertising cooperative that Franchisor establishes or causes to be formed, if Franchisor requires Franchisee's participation. Such participation may involve, for example, paying a pro rata share of the cost of yellow pages advertising (or equivalent) placed on behalf of Franchisee and other Macchiato Cafes. If no other Macchiato Cafes are located nearby, Franchisee must maintain a display advertisement, in a form Franchisor specifies, in the local yellow pages directory (or equivalent). The cost of Franchisee's white pages and yellow pages advertising (or equivalent) will be borne by Franchisee. Franchisee may not solicit business through the use of an 800 (or other toll-free) number, direct mail or other advertising method without Franchisor's prior written consent

9 4 Franchisee must submit to Franchisor, for its approval, all materials to be used for local advertising, unless they have been approved before or they consist only of materials Franchisor provided. All materials containing the Marks must include the designation trademark TM, registered trademark [®], service mark SM, copyright [©], or any other designation Franchisor specifies. If Franchisee does not receive written or oral disapproval of any materials submitted within ten (10) days from the date Franchisor receives the materials, the materials are deemed approved. Franchisor may require Franchisee to withdraw and/or discontinue the use of any promotional materials or advertising, even if previously approved. Franchisor must make this requirement in writing, and Franchisee will have five (5) days after receipt of Franchisor's notice to withdraw and/or discontinue use of the materials or advertising

Franchisee must include in any significant display advertisements, and in marketing materials for the Cafe, in conformance with standards in the Confidential Operations Manual, a notice that the Cafe is individually owned and operated. Subject to any legal restrictions, Franchisee also must display or make available, in the reception area of the Cafe, marketing materials intended for general customers that Franchisor may provide to Franchisee from time to time.

9.5 Franchisee acknowledges and agrees that Franchisor will own all rights to and interest in each telephone number and online and telephone business directory listing used by Franchisee that is associated in any manner with Franchisee's Cafe and/or with any Mark (the "Listings"). Franchisee acknowledges and agrees that all goodwill arising from or in connection with the use of each of the Listings will inure to Franchisor's benefit. Promptly after the expiration, termination, repurchase or transfer of the franchise, and at Franchisee's own expense, Franchisee will notify all telephone and business directory service companies with whom Franchisee has any Listings and direct them to transfer the Listings to Franchisor or to any person(s) Franchisor designates, and Franchisee will execute any and all documents necessary to complete these transfer(s). Upon the execution of this Agreement, Franchisee will sign a Listings transfer consent and authorization, in a form substantially similar to Exhibit G, granting Franchisor the authority to change, transfer or terminate Franchisee's Listings on Franchisee's behalf. Franchisor will use this authorization only if Franchisee does not comply fully with this Section 9.5 after the expiration, termination, repurchase or transfer of the franchise.

9.6 Franchisor has the right to control all use of URLs, domain names, websites, addresses, meta-tags, links, key words, e-mail addresses and any other means of electronic identification or origin ("e-names") related to the Cafe. Franchisor shall establish and maintain from time to time, one or more Internet Websites that shall be used to provide information about Macchiato Cafes to the public. Franchisor has sole discretion and control over the establishment, design and content of the Website. Franchisor may, in its discretion, configure the site to accommodate one or more interior pages which Franchisor shall dedicate, in whole or in part, to the Franchised Cafe, all at Franchisee's expense. Franchisor shall have the right, at its sole option, from time to time to (i) change, revise, or eliminate the design, content and functionality of the Website, (ii) make operational changes to the Website, (iii) change or modify the URL and/or domain name of the Website, (iv) substitute, modify, or rearrange the Website, at Franchisor's sole option, including in any manner that Franchisor considers necessary or desirable to comply with applicable laws, or respond to changes in market conditions or technology and respond to any other circumstances, (v) limit or restrict end-user access (in whole or in part) to the Website, and (vi) disable or terminate the Website without any liability to Franchisee. Franchisee shall not develop, create, generate, own, license, lease or use in any manner any computer medium or electronic medium (including, without limitation, any Internet home page, e-mail address, Website domain name, bulletin board, newsgroup or other Internet-related medium or activity) which in any way uses or displays, in whole or in part, the Marks, or any of them, or any words, symbols or terms confusingly similar thereto without Franchisor's prior written consent, and then only in the manner and in accordance with the procedures, policies, standards and specifications that Franchisor may establish from time to time. Franchisee shall not separately register any domain name or any portion of any domain name containing the Marks or participate or market on any Website or other form of electronic media (including, without limitation, through the use of social technology, social media, social networking platforms, video Websites, email marketing sites or other forms of electronic media not yet developed) using the Marks without Franchisor's prior written consent. Franchisee's general conduct on the Internet and in the use of other forms of electronic media is subject to the terms and conditions of this Agreement and all other rules, requirements or policies that Franchisor may identify from time to time. Franchisor may at any time after Franchisee commences use of any approved electronic media, prohibit further use, effective upon receipt of written notice by Franchisee.

9 7 Franchisee is not permitted to promote its Franchised Cafe or use any of the Marks in any manner on any social or networking websites, such as Facebook, LinkedIn or Twitter, without Franchisor's prior written consent. Franchisor will control all social media initiatives. Franchisee must comply with Franchisor's System standards regarding the use of social media in Franchisee's Franchised Business's operation, including prohibitions on Franchisee's and the Franchised Cafe's employees posting or blogging comments about the Franchised Cafe or the System, other than on a website established or authorized by us. "Social media" includes personal blogs, common social networks like Facebook, Instagram, Foursquare and MySpace, professional networks like LinkedIn, live-blogging tools like Twitter, virtual worlds, file, audio and video-sharing sites, and other similar social networking or media sites or tools. Franchisor will provide access to branded social media pages/handles/assets, and Franchisee must update these regularly. Franchisor reserves the right to conduct collective/national campaigns via local social media on Franchisee's behalf. Franchisor alone will be, and at all times will remain, the sole owner of the copyrights to all material which appears on any website Franchisor establishes and maintains, including any and all material Franchisee may furnish to Franchisor.

9 8 Franchisor may require Franchisee, at Franchisee's expense, to operate certain aspects of the Cafe that Franchisor designates from time to time through e-commerce methods in the manner Franchisor designates from time to time. Franchisor also has the right to designate, approve, control or limit all aspects of Franchisee's use of the Internet, Intranet, World Wide Web, wireless technology, digital cable, use of e-names, virtual worlds, social media, portals, search engine optimization, pay-per-click advertising, home pages, bulletin boards, chat rooms, linking, framing, blogs, text messaging, on-line purchasing cooperatives, marketplaces, barter exchanges, and related technologies, methods, techniques, registrations, networking, and any electronic communication, commerce, computations, or any means of interactive electronic documents contained in a network of computers or similar devices linked by communications software (collectively, "e-commerce"). Franchisee must follow all of Franchisor's policies and procedures for the use and regulation of e-commerce. Franchisee shall assign and transfer to Franchisor or Franchisor's designee any and all interest Franchisee may have in any e-commerce in connection with the Franchise. Franchisor may require that Franchisee provide photographic, written or other forms of content to Franchisor for use in e-commerce activities associated with the Marks or the System which Franchisor may designate. Franchisor may restrict Franchisee's use of e-commerce, or Franchisee's customers use of e-commerce in connection with the Menu Item purchases to a centralized website, portal or network or other form of e-commerce designated by Franchisor or operated by Franchisor or Franchisor's designee. Franchisor may require that Franchisee provide information to Franchisor and arrange Menu Item sales or distribution via e-commerce. Franchisor may require Franchisee to coordinate Franchisee's e-commerce activities with Franchisor. Franchisor may require that Franchisee's customers be provided access to certain e-commerce activities that Franchisor designates from time to time. Franchisee recognizes and agrees that between Franchisee and Franchisor, Franchisor owns all rights to all interest in and to any data collected via e-commerce related to the System and the Marks, including any customer data, click-stream data, cookies, user data, hits and the like. All such information constitutes Franchisor's confidential information.

9 9 Any information on customers of Franchisee's Cafe that identifies or can be used to identify, contact, locate, or be traced back to the specific person to whom such information pertains, or from which identification or contact information of an individual person can be derived, including but not limited to, personally identifiable information ("Customer Data") and all information, mailing lists and data bases of Customer Data from whatever source derived, industry standards must be used only in connection with Franchisee's Cafe in accordance with this Agreement. Franchisee agrees to comply with all applicable laws, regulations and with respect to Customer Data, in addition Franchisee agrees to comply with all data privacy and security requirements Franchisor may establish from time to time and to exert Franchisee's best efforts to prevent the unauthorized use, dissemination or publication of Customer Data, subject in all instances to applicable laws. Franchisee shall promptly notify Franchisor if

Franchisee becomes aware of or suspect any unauthorized access to the Customer Data, or if Franchisee becomes the subject of any governmental, regulatory or other enforcement or private proceeding relating to Franchisee's data handling practices

9 10 It is Franchisee's responsibility to maintain and report Franchisee's Payment Card Industry (PCI) compliance, which encompasses operational policies and practices as well as networks and computer systems hardware/software used to process credit card transactions, as well as attesting that Franchisee is abiding by (i) the PCI Data Security Standards enacted by the applicable card associations (as they may be modified from time to time or as successor standards are adopted), and (ii) all other security standards and guidelines that may be published from time to time by payment card companies and/or enacted by law, and are applicable to customer credit card and debit card information. If Franchisee knows or suspects a security breach, Franchisee must immediately notify both Franchisee's credit card transaction acquirer and Franchisor. Franchisee assumes all responsibility for providing notice of breach or compromise, along with duties and costs associated with fraudulent transactions, penalties, and ongoing fees for monitoring customer credit card histories and/or transactions for affected customers of Franchisee's Cafe.

ARTICLE X **REPORTS TO FRANCHISOR**

10 1 Franchisee shall keep full, complete and accurate books, records, and accounts (including, but not limited to, sales slips, coupons, purchase orders, payroll records, check stubs, bank statements, sales tax records and returns, cash receipts and disbursements, journals and ledgers, records of EFT transactions, and backup or archived records of information on any computer system) in accordance with generally accepted accounting principles and in accordance with the System, and Franchisee shall submit to Franchisor

A Concurrently with the payment of the Royalty Fees, on a form supplied or approved by Franchisor, a signed and verified statement of Gross Sales in cash, credit and/or other charges, and when Franchisee is tied into the computerized cash register system such reports shall be transmitted electronically,

B Within sixty (60) days after the close of each twelve (12) month period, an annual profit and loss statement for the Cafe for such year and a balance sheet for the Cafe as of the end of such year, reviewed by an independent certified public accountant. Franchisor may randomly select a franchisee or franchisees who will be required to have an audited financial statement prepared by a certified public accountant selected by the franchisee, but who shall be acceptable to Franchisor, which opinion may be qualified only to the extent reasonably acceptable to Franchisor,

C Promptly when prepared, a copy of all of Franchisee's Federal, State and Local tax returns of any kind or nature, and a certificate from Franchisee's accountant that all Social Security payments, taxes and fees required to be paid by Franchisee have been paid, and that there is no reason to believe that Franchisee's corporate status, if Franchisee is a corporation, has been impaired, and

D Such other periodic forms and reports as may be reasonably prescribed by Franchisor

10 2 Franchisee shall preserve, for a period of not less than three (3) years, all accounting records and supporting documents relating to Franchisee's business under this Agreement

10.3 Franchisee shall record, in a manner approved and designated by Franchisor at the time of receipt, all sales of all products sold by Franchisee from Franchisee's Cafe in a computerized cash register of a type designated by Franchisor, or on any other machine or recording device recommended or approved in advance by Franchisor

10.4 In order to determine whether Franchisee is complying with this Agreement, Franchisor or its designated agents shall have the right, at any time during reasonable business hours, to examine, at its expense, the books, records, cash control devices, income tax returns, bank statements, sales records of the Cafe, and the books and records of any corporation or partnership which owns the franchise. Franchisor shall also have the right, at any time, to have an independent audit made of the books of Franchisee. If an inspection or audit should reveal that Gross Sales and/or payments have been understated in any report to Franchisor by more than two percent (2%), then Franchisee shall, upon fifteen (15) days' notice, pay to Franchisor the amount understated upon demand, and in addition reimburse Franchisor for any and all costs and expenses connected with the inspection or audit (including without limitation, reasonable accounting and attorneys' fees, travel expenses, room and board and compensation of employees or agents of Franchisor). The foregoing remedies shall be in addition to any other remedies Franchisor may have hereunder or under applicable law.

ARTICLE XI

CONFIDENTIAL OPERATIONS MANUAL

11.1 Franchisor shall lend to Franchisee a confidential operations manual published by Franchisor (the "Confidential Operations Manual") which shall include, in part, the business procedures, technical advice and rules and regulations for operating the business.

11.2 Franchisee acknowledges and agrees that

A The Confidential Operations Manual is, and shall remain, the property of Franchisor throughout the term of this Agreement, any renewal hereof and thereafter,

B The Confidential Operations Manual contains confidential information which Franchisee will protect as a trade secret, and its loss will cause substantial damage to Franchisor and other franchisees, although the amount of such loss would be incalculable with any degree of accuracy,

C Franchisee shall not reprint or reproduce any portion of the Confidential Operations Manual for any reason, and

D Upon termination of this Agreement for any reason, Franchisee will immediately return the Confidential Operations Manual to Franchisor.

11.3 Franchisor may reasonably add to or otherwise modify the Confidential Operations Manual, from time to time, whenever it considers such additions or modifications desirable to improve or maintain the standards of the System and its efficient operation, or to protect or maintain the goodwill associated with the "Macchiato" name and Marks or to meet competition, provided such additions or modifications are system-wide in nature and do not substantially increase Franchisee's economic burden.

ARTICLE XII INSURANCE

12.1 Franchisee, at its sole cost and expense, shall obtain and place with an insurer rated "AAA" in Best's Directory who is authorized to do business in the state in which Franchisee's Cafe is located, and to keep in full force and effect during the terms of this Agreement, insurance coverage on an "occurrence basis" naming Franchisor, its officers, directors and shareholders and any supplier of Products, and any designated primary and secondary lessor as co-insured's (such insurance policies referred to below collectively as "Insurance") as follows

A Broad Form Comprehensive General Liability with limits of no less than Two Million Dollars (\$2,000,000) in case of damage or injury to one or more persons, including indemnification coverage and property damage insurance of Five Hundred Thousand Dollars (\$500,000), both of which shall be considered primary policies,

B All risk coverage on all personal property covering Franchisee's Cafe and premises and contents thereof, including, without limitation, all supplies, inventory, fixtures, and equipment and business interruption in amounts not less than is sufficient to meet the co-insurance requirements of Franchisee's policies, and which business interruption insurance covers at least six (6) months of rent, royalties and advertising fees, and contain a replacement value endorsement in an amount not less than ninety percent (90%) of the replacement value thereof, and any loss shall be payable to Franchisor and Franchisee as their interests may appear,

C Worker's Compensation and Disability Insurance as may be required by law, and

D Any other insurance coverage as required by the State, Federal or local municipality in which the franchised premises are located

12.2 The insurance shall cover the acts or omissions of each and every one of the persons who perform services of any nature at Franchisee's Cafe, and shall protect against all acts of any persons who patronize the Cafe and shall contain a waiver of subrogation against Franchisor

12.3 Prior to the opening of Franchisee's Cafe, Franchisee will deliver to Franchisor certificates of the Insurance, together with the copies of the actual policies issued, and will promptly pay all premiums thereon as and when the same become due. All policies shall provide that they are non-cancelable as to Franchisor unless Franchisor receives at least thirty (30) days' prior written notice of cancellation. Franchisor shall have the right, but shall not be obligated, to pay premiums due and unpaid by Franchisee or else to obtain substitute coverage in the case of cancellation. Any cost thereof to Franchisor shall be added to the Royalty Fees otherwise payable to Franchisor under this Agreement, provided, however, that same shall be due and payable to Franchisor by Franchisee within five (5) days of demand therefor

12.4 Franchisor reserves the right to demand that Franchisee obtain Insurance from time to time which is different in coverage, risks, amount or otherwise from the foregoing in order to protect fully the parties having insurable interests in Franchisee's Cafe, provided such Insurance is reasonably common in the area for similar operations

12.5 Franchisee shall immediately notify Franchisor, in writing, of any accidents, injury, occurrence or claim that might give rise to a liability or claim against Franchisor or which could materially affect Franchisee's business, and such notice shall be provided no later than the date upon which Franchisee notifies Franchisee's insurance carrier

ARTICLE XIII
RELATIONSHIP OF THE PARTIES, INDEMNIFICATION

13 1 The relationship between Franchisor and Franchisee is strictly that of a franchisor and franchisee, and Franchisee shall be deemed to be an independent contractor. This Agreement does not create a fiduciary relationship between Franchisor and Franchisee, joint venture, partnership, or agency, and any act or omission of either party shall not bind or obligate the other except as expressly set forth in this Agreement.

13 2 Franchisee recognizes that Franchisor has entered into this Agreement in reliance upon and in recognition of the fact that Franchisee will have full responsibility for the management and operation of the business, and that the amount of profit or loss resulting from the operation of the business will be directly and solely attributable to the performance of Franchisee.

13 3 Except as expressly granted in this Agreement, Franchisee recognizes that nothing contained in this Agreement shall be construed as giving to Franchisee or to any other person or entity, any right or interest in Franchisor's names, Marks, trade secrets, methods, procedures or techniques developed by Franchisor and used in the System. Further, except as specifically set forth in Article I above, nothing contained in this Agreement shall be construed as limiting Franchisor's right, title or interest in the "Macchiato" name, Marks, trade secrets, methods, procedures and techniques which are a part of the System or Franchisor's sole and exclusive right to register trade secrets, methods, procedures and techniques.

13 4 In all public records and prominently displayed in Franchisee's Cafe and in Franchisee's relationship with third parties, as well as on letterheads and business forms, Franchisee shall indicate clearly the independent ownership of Franchisee's Cafe, and that the operations of same are separate and distinct from the operation of Franchisor's business. Franchisor shall have the absolute right to approve and/or supply any sign displays containing the foregoing.

13 5 Franchisor shall have no liability for any sales, use, excise, gross receipts, property or other taxes, whether levied upon Franchisee, the Cafe or its assets, or upon Franchisor in connection with sales made, services performed or business conducted by Franchisee.

13 6 Franchisee shall indemnify and hold Franchisor and its subsidiaries, affiliates, stockholders, directors, officers, employees, agents and assignees harmless against, and to reimburse them for any loss, liability, taxes or damages (actual or consequential) and all reasonable costs and expenses of defending any claim brought against any of them or any action in which any of them is named as a party (including, without limitation, reasonable accountants', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses) which any of them may suffer, sustain or incur by reason of, arising from or in connection with Franchisee's ownership or operation of the Cafe, which is due to Franchisee's negligence, breach of contract or other civil wrongs, unless such loss, liability or damage is solely due to the negligence of Franchisor (or any of its affiliates, i.e., any company controlling, controlled by, or under common control with Franchisor) in producing, handling or storing the proprietary food items sold to Franchisee (provided Franchisor shall have established that Franchisee inspected such proprietary food items in accordance with the procedures set forth in the Confidential Operations Manual and could not have reasonably discovered the adulteration or other defect in such proprietary food items which was the case of such loss, liability or damage). Franchisee acknowledges and agrees that any action or inaction by any third party

(e g , an independent carrier) which is not an affiliate of Franchisor in connection with handling or storing the Products shall not be attributable to or constitute negligence of Franchisor

ARTICLE XIV **COVENANTS NOT TO COMPETE**

14 1 Franchisee specifically acknowledges and agrees that prior to becoming a franchisee of Franchisor, Franchisee had no experience, information or knowledge whatsoever about a cafe or a Macchiato Cafe, and that Franchisee's knowledge of the Macchiato Confidential Information was obtained solely from Franchisor, following Franchisee's training by Franchisor and Franchisee's subsequent operation of the Franchised Cafe under this Agreement. In addition, Franchisee specifically acknowledges that, pursuant to this Agreement, Franchisee will receive valuable specialized training and confidential information, including, without limitation, Macchiato Confidential Information regarding the operational, sales, promotional, and marketing methods and techniques of Franchisor and the Macchiato System, which are unique and proprietary to Franchisor, derive independent economic value from not being generally known to the public and are the subject of Franchisor's efforts and that are reasonable under the circumstances to maintain their secrecy.

14 2 During the term of this Agreement, or any extension thereof, Franchisee and each Owner (defined below) covenants that except as otherwise approved in writing by Franchisor, Franchisee and each Owner shall not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person, or legal Entity (i) divert or attempt to divert any present or prospective Macchiato customer 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 and the System, (ii) employ or seek to employ any person who is or has been within the preceding ninety (90) days employed by Franchisor or an affiliate of Franchisor as a supervisory or managerial employee, or otherwise directly or indirectly induce the person to leave his or her employment, or (iii) own (either beneficially or of record), engage in or render services to, whether as an investor, partner, lender, director, officer, manager, employee, consultant, representative or agent, any Competitive Business, provided, however, the restrictions stated in this Section 14 2 shall not apply to any Owner after two (2) years from the date the Owner ceases to be an officer, director, shareholder member, manager, trustee, owner, general partner, employee or otherwise associated in any capacity with Franchisee. "Entity" shall mean any limited liability company, partnership, trust, association, corporation or other entity, which is not an individual. "Owner" as used herein shall mean each of the individuals listed on Exhibit I and each direct or indirect shareholder, member, general or limited partner, trustee or other equity owner of Franchisee. If Franchisee is an Entity, each Owner and each Owner's spouse shall jointly and severally guarantee Franchisee's payment and performance of its obligations under this Agreement under a Guarantee in the form of Exhibit B. "Competitive Business" shall mean any cafe or dining business that prepares, offers and sells beverages and small food and dessert items as its primary menu items and any business that looks like, copies, imitates, or operates with similar trade dress or decor to the Franchised Cafe.

14 3 Except as Franchisor otherwise approves in writing, commencing upon the date of (i) an assignment, transfer or sale permitted under Article XX, (ii) the expiration of this Agreement, (iii) the termination of this Agreement (regardless of the cause for termination), or (iv) a final court order (after all appeals have been taken) with respect to any of the foregoing events or with respect to enforcement of this Section 14 3, and continuing for an uninterrupted period of two (2) years thereafter, Franchisee and each Owner shall not

A Engage, employ or compensate or seek to employ any person who is at that time engaged, operating or employed by or at any other Cafes, or to otherwise directly or indirectly induce such person to leave employment at any Cafe,

B Solicit business from customers of Franchisee's former Cafe or contact any of Franchisor's suppliers or vendors for any Competitive Business purpose, or

C Either directly or indirectly for himself or on the behalf of, or in conjunction with, any other person, persons, partnership, association or corporation, own, maintain, engage in, participate in, or have any interest in the operation of any enterprise which directly or indirectly competes with or is the same or substantially similar to the franchise covered by this Agreement, or which distributes, produces or sells the Products within the "Minimum Area of Competition" The "Minimum Area of Competition" shall be deemed to be that area which is within a radius of ten (10) miles from Franchisee's Cafe, or any other Cafe in operation on the effective date of termination or expiration, whether franchised or company-owned

14 4 If Franchisee fails or refuses to comply with any covenants of this Article, even if such failure or refusal is based upon a claim that the laws of any particular jurisdiction excuse such non-compliance, or make the provisions unenforceable in whole or in part, and provided that the jurisdiction in which Franchisee's Cafe is located permits, Franchisee separately covenants and agrees that while this Agreement is in effect and for two (2) years after its termination, except where termination occurs due to the fault or action of Franchisor and not due to default of Franchisee, Franchisor shall have the right to require that all sales made in the operation of any business which directly or indirectly competes with (a) Franchisor, (b) a dessert shop, or (c) the System, or which distributes, produces or sells any of the Products (i) anywhere, if this Agreement is then in effect, or (ii) within the Minimum Area of Competition, if this Agreement has been terminated, shall be reported to Franchisor Franchisee agrees to pay Franchisor upon demand, the weekly fee of One Thousand Dollars (\$1,000) at the times and in the manner specified in Article V above, all without being deemed to revive, modify or expand this Agreement The covenants of this Article shall survive the termination or expiration of this Agreement

14 5 Franchisee shall not, during the term of this Agreement or after its termination or non-renewal, communicate or divulge to any other person, persons, partnership or corporation, any information or knowledge concerning the methods of operation used in a cafe franchise, nor shall Franchisee disclose or divulge, in whole or in part, any trade secrets of Franchisor or its affiliated companies or subsidiaries

14 6 The covenants contained in Sections 14 2, 14 3 and 14 4 above shall be construed as independent of any other covenant or provision of this Agreement If all or any portion of a covenant in this Article is held unreasonable or unenforceable by a court or agency having valid jurisdiction in any unappealed final decision to which Franchisor is a party, Franchisee expressly agrees to be bound by any lesser covenant subsumed with the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated and made a part of this Article

14 7 Franchisee acknowledges that the foregoing restrictions are reasonable, are not vague or indefinite, and are designed to protect the legitimate business interests of Franchisor, and that in the event of a breach of covenants contained in this paragraph, the damage to Franchisor would be difficult to ascertain In addition to the liquidated damages payable to Franchisor as provided below for the breach of any or all of the above covenants, Franchisor shall be entitled to seek injunctive and/or other equitable relief against the violation of any of those covenants, together with reasonable attorneys' fees and costs

14.8 Covenants contained in this Article shall be construed as severable and independent and shall be interpreted and applied consistent with the requirements of reasonableness and equity. Any judicial reformation of these covenants consistent with this interpretation shall be enforceable as though contained in this Agreement and shall not affect any other provisions or terms of this Agreement.

14.9 Franchisee shall obtain and furnish to Franchisor executed covenants similar in substance to those set forth in this Article XIV (including covenants applicable upon the termination of a person's relationship with Franchisee) from all Owners. Every covenant required by this Section 14.9 shall be in a form acceptable to Franchisor, and shall include, without limitation, a designation of Franchisor as a third party beneficiary of the covenants with the independent right to enforce them.

ARTICLE XV **MODIFICATION OF THE SYSTEM**

Franchisee understands and agrees that the System must not remain static if it is to meet, without limitation, presently unforeseen changes in technology, competitive circumstances, demographics, populations, consumer trends, societal trends, other market place variables and the needs of customers, and to best serve the interests of Franchisor, Franchisee and all other franchisees. Accordingly, Franchisee expressly understands and agrees that Franchisor may from time to time change the components of the System, including, but not limited to, altering the products, programs, services, methods, standards, forms, policies and procedures of that System, abandoning the System altogether in favor of another system in connection with a merger, acquisition, other business combination or for other reasons, adding to, deleting from or modifying those programs and services which Franchisee's Cafe is authorized to offer, modifying or substituting entirely the building, premises, equipment, signage, trade dress, decor, color schemes and uniform specifications and all other unit construction, design, appearance and operation attributes which Franchisee is required to observe hereunder, and changing, improving or modifying the Marks. Subject to the other provisions of this Agreement, Franchisee expressly agrees to abide by any such modifications, changes, additions, deletions and alterations, provided, however, that those changes do not materially and unreasonably increase Franchisee's obligations under this Agreement.

Franchisee shall accept, use and effectuate any such changes or modifications to, or substitution of, the System as if they were part of the System at the time that this Agreement was executed.

Except as provided in this Agreement, Franchisor shall not be liable to Franchisee for any expenses, losses or damages sustained by Franchisee as a result of any of the modifications contemplated hereby. Franchisee covenants not to commence or join in any litigation or other proceeding against Franchisor or any third party complaining of any such modifications or seeking expenses, losses or damages caused thereby. Finally, Franchisee expressly waives any claims, demands or damages arising from or related to the foregoing activities including, without limitation, any claim of breach of contract, breach of fiduciary duty, fraud, and/or breach of the implied covenant of good faith and fair dealing.

ARTICLE XVI **FRANCHISEE**

The term "Franchisee" shall include all persons who succeed to the interest of the original Franchisee by transfer or operation of law, and shall be deemed to include not only the individual or entity defined as "Franchisee" in the introductory paragraph of this Agreement, but shall also include partners of the entity that execute this Agreement in the event the entity is a partnership, all shareholders,

officers and directors of the entity that execute this Agreement in the event the entity is a corporation, and all members, officers and managers of the entity that execute this Agreement in the event the entity is a limited liability company. By their signatures to this Agreement, all partners, shareholders, officers and directors of the entity that signs this Agreement as Franchisee acknowledge and accept, jointly and severally, the duties and obligations imposed upon each of them, individually, by the terms of this Agreement. The singular usage includes the plural and the neuter and masculine usages include the other and the feminine.

ARTICLE XVII **TERMINATION**

17.1 Franchisor may terminate this Agreement upon the occurrence of any of the following events of default:

A Failure by Franchisee to make complete and timely payment of any and all fees and billings due Franchisor or any of its subsidiary or affiliated corporations,

B Failure to comply with the reporting or record keeping requirements of this Agreement, and/or the under-reporting of Gross Sales by two percent (2%) or more,

C The misstatement by Franchisee of any material fact, or failure to disclose or the understatement of any material fact in any report furnished to Franchisor pursuant to this Agreement or the Confidential Operations Manual, whether or not such misstatement or failure to disclose or understatement is intentional,

D A breach by Franchisee of any provision of this Agreement, any failure to comply with any provision of the Confidential Operations Manual, or any other agreement between Franchisor and Franchisee or any of its subsidiary or affiliated corporations,

E Failure by Franchisee to make good faith efforts to carry out the provisions of this Agreement,

F Any pledge or attempted pledge of Franchisor's credit by Franchisee, or an attempt by Franchisee to bind Franchisor to any obligation,

G Failure by Franchisee to participate in the advertising, promotional, or marketing activities, services, and programs that are established by Franchisor or Franchisor's Advertising Fund,

H Misuse or unauthorized disclosure by Franchisee of the Confidential Operations Manual, information or materials,

I Failure to use or sell any of the proprietary food items to the exclusion of those of any competitors and the failure to perform all of the services required by Franchisor, including but not limited to the forwarding of copies of all health or sanitation or other regulatory agency reports to Franchisor immediately upon receipt thereof,

J Failure to open Franchisee's Cafe at the location designated by Franchisee within the time specified in the lease or sublease,

K Except as otherwise provided herein, failure by Franchisee to purchase Franchisee's entire requirement of any of the proprietary food items either from Franchisor or from sources of supply designated by Franchisor and to sell the same to the consuming public using Franchisee's best efforts,

L Failure to correct any local, state or municipal healthy or sanitation law or code violation within twenty-four (24) hours after being cited for such violation, or

M Sale of any proprietary food items to other than the retail customer (ultimate consumer), without Franchisor's prior consent

17.2 To terminate Franchisee for default of this Agreement pursuant to Section 17.1 above, Franchisor shall first provide Franchisee with written notice of termination, which notice shall specify the reason for and the Effective Date of Termination. This Agreement shall terminate on the date specified in the notice, which shall be thirty (30) days from the date of the notice (or such longer period as provided by State law), unless

A Franchisee cures the default or reason for termination during the notice period,

B Franchisee has in good faith initiated a cure of the default or reason for termination within the notice period, and such default or reason cannot be completely cured during the notice period because of factors reasonably beyond the exclusive control of Franchisee, in which event Franchisor, by notice, shall permit Franchisee a reasonable opportunity, in light of such factors, to effect a complete cure, or

C The provisions of Subsection 17.2 A and B notwithstanding, this Agreement shall nonetheless terminate if (i) the default or reason for termination has been set forth in two (2) prior notices of termination within any prior twelve (12) month period, or (ii) two (2) or more health code violations have been committed within any prior twelve (12) month period, or (iii) Franchisee is terminated as a result of under-reporting Gross Sales by two percent (2%) or more

17.3 Upon written notice to Franchisee, Franchisor may, without right to cure, immediately terminate this Agreement if any of the following events of default occur

A Any action by Franchisee, any of Franchisee's partners, if Franchisee is a partnership, or any of its officers, directors or stockholders, if Franchisee is a corporation, which results in

(i) An affirmative act of insolvency,

(ii) An assignment for the benefit of creditors, or

(iii) The filing of a petition under any bankruptcy, reorganization, insolvency, or moratorium law, or any law for the relief of, or relating to, debtors, except with respect to any relief permitted under the Federal Bankruptcy Code

B The filing of any involuntary petition under any bankruptcy statute against Franchisee, any of its partners, or any of its stockholders owning at least twenty-five (25%) percent of any class of stock, or the appointment of any receiver or trustee to take possession of property of Franchisee, any of its partners, or any of its stockholders owning at least twenty-five (25%) percent of any class of stock of Franchisee,

C Failure by Franchisee to satisfy fully a civil judgment obtained against Franchisee for a period of more than thirty (30) days after all rights of appeal have been exhausted, or execution of such a judgment, execution of a lien, or foreclosure by a secured party or mortgage against Franchisee's property, which judgment, execution of a lien, or foreclosure by a secured party or mortgage would have an adverse or detrimental effect upon Franchisee's franchised operation,

D Conviction of Franchisee, or any partner of Franchisee, or any officer, director, or stockholder owning at least twenty-five (25%) percent of any class of stock of Franchisee, or the manager of Franchisee's franchise, of any crime which in the opinion of Franchisor would adversely affect the goodwill or interest of Franchisee or Franchisee's Cafe,

E The uncured default by Franchisee under any lease or sublease of Franchisee's Cafe which could possibly result in the loss by Franchisee of the right to possess for any reason whatsoever,

F A final judgment or the unappealed decision of a court, regulatory officer, agency, or quasi-regulatory agency that results in the temporary or permanent suspensions or revocation of any permits or licenses, possession of which is a prerequisite to the operation of Franchisee's business or is required under applicable law,

G The direct or indirect assignment, transfer, sale or encumbrance by Franchisee of this Agreement or franchise or any of Franchisee's rights or privileges contrary to this Agreement, or any attempt by Franchisee to sell, assign, transfer or encumber the Cafe contrary to the terms of this Agreement,

H Failure by Franchisee to remain open for business as required by this Agreement or as may be required by the Confidential Operating Manual, as may be limited by local law or the prime landlord, or the abandonment or vacating by Franchisee of Franchisee's Cafe or for three (3) or more consecutive days (or for such other period as would be grounds for termination of Franchisee's sublease),

I Dissolution, judicial or otherwise, or liquidation of Franchisee, if Franchisee is a corporation or partnership,

J Franchisee's engaging in any conduct or practice that, in the reasonable opinion of Franchisor, is detrimental or harmful to the good name, goodwill or reputation of Franchisor or its products or other franchisees or the public,

K Franchisee's engaging in any conduct or practice that is a fraud upon consumers, or is an unfair, unethical, or deceptive trade, act or practice, or

L Unauthorized or improper use by Franchisee of Franchisor's Marks

ARTICLE XVIII
RIGHTS AND DUTIES OF THE PARTIES
UPON EXPIRATION OR TERMINATION

18.1 For the purpose of this Agreement, the "Effective Date of Termination" shall be the date indicated in any notice of termination sent pursuant to Section 17.2 or 17.3 of this Agreement or the day after the Initial Term, as set forth in Section 4.1 of this Agreement

18.2 Upon the Effective Date of Termination, Franchisee shall no longer be an authorized franchisee, and Franchisee shall pay all sums of money due Franchisor or any of its subsidiary or affiliated corporations within fifteen (15) days of the Effective Date of Termination, unless Franchisor gives written notice of an extension of this period

18.3 Upon the Effective Date of Termination, Franchisee shall discontinue the use of all Marks owned by or associated with Franchisor and all similar names and marks, or any other designation or mark associating Franchisee with the System. If Franchisee is a corporation or partnership and, notwithstanding the prohibition of utilizing the "Macchiato" name in its corporate or partnership name, has used the "Macchiato" name or any names, marks or designations that associate Franchisee with Franchisor in its corporate or partnership name, Franchisee shall, within fifteen (15) days of the Effective Date of Termination, take all necessary steps to eliminate "Macchiato" from its corporate or partnership name, at Franchisee's own cost and expense

18.4 Upon the Effective Date of Termination, Franchisee shall cease displaying and using all signs, stationery, letterheads, forms, manuals, printed matter, advertising, and other material containing the Marks, "Macchiato" or any other names, marks, or designations that associate Franchisee with the System

18.5 After the Effective Date of Termination, Franchisee shall not take any action indicating or implying that Franchisee is an authorized franchisee

18.6 Franchisee shall maintain all financial records and reports required pursuant to this Agreement or the Confidential Operations Manual for a period of not less than three (3) years after the Effective Date of Termination. Franchisee shall permit Franchisor to make final inspection of Franchisee's financial records, books, tax returns, and other accounting records at any time in the three (3) year period following the Effective Date of Termination

18.7 Upon the Effective Date of Termination, Franchisee shall, pursuant to the lease or sublease or conditional lease assignment and upon demand of Franchisor, vacate and surrender the Cafe premises in accordance with the terms and conditions under the terms of the lease, sublease and/or conditional lease assignment

18.8 Upon the Effective Date of Termination, Franchisee shall cease all use of telephone numbers used by Franchisee while conducting business as a "Macchiato" franchise and shall promptly execute such documents or take such steps necessary to remove Franchisee's listing as a "Macchiato" franchise from the "Yellow Pages", all other telephone directories, and all other trade or other business directories

18.9 Within fifteen (15) days from the Effective Date of Termination of this Agreement, Franchisee shall immediately turn over to Franchisor all manuals, including the Confidential Operations Manual, records, files, instructions, recipes, menus, correspondence, any and all materials relating to the operation of the Franchised Business in Franchisee's possession, and all copies of such written materials (all of which are acknowledged to be Franchisor's property), and shall retain no copy or record of any of the foregoing, except only Franchisee's copy of this Agreement, and of any correspondence between the parties, and any other documents which Franchisee reasonably needs for compliance with any provision of law and the records described in Section 18.6 above

18.10 If Franchisor notifies Franchisee of its intent to do so within ten (10) days after the Effective Date of Termination, Franchisor shall have the right (but not the duty) to purchase any or all of

the signs, advertising material, supplies, equipment and any items bearing Franchisor's Marks at Franchisee's cost or fair market value, whichever is less. If the parties cannot agree on fair market value within a reasonable time, each party shall designate an independent qualified appraiser, and their joint determination shall be binding on both parties. If these appraisers are unable to agree upon a fair market value, they will designate a third, approved appraiser whose determination shall be binding upon both parties. If Franchisor elects to exercise its option to purchase, it shall have the right to set off all amounts due from Franchisee under this Agreement, and the cost of the appraisal, if any, against any payment therefor. Franchisor may exclude from the items purchased hereunder cash or its equivalent and any equipment, signs, inventory, materials and supplies that are not reasonably necessary (in function or quality) to the Cafe's operation or that Franchisor has not approved as meeting standards for the Cafe.

18.11 No right or remedy conferred upon or reserved to Franchisor in this Agreement is exclusive of any other right or remedy contained in this Agreement, or provided or permitted by law or equity, but each shall be cumulative of every other right or remedy.

18.12 Nothing contained in this Agreement shall be deemed to relieve Franchisee of any obligations or responsibilities or liabilities incurred by Franchisee during the term of this Agreement or any renewal term, or Franchisee's lease or sublease and which obligations, responsibilities or liabilities shall survive the termination, expiration or non-renewal of this Agreement, Franchisee's lease or sublease.

ARTICLE XIX **COMMENCEMENT AND HOURS OF OPERATIONS**

Franchisee recognizes that continuous and daily availability of any of the proprietary food items and Products to the public is essential to the adequate promotion of Franchisee's Cafe, and that any failure to provide such availability affects Franchisor both locally and nationally. Franchisee shall make Franchisee or Franchisee's trained manager personally available to provide the Products to the consuming public at a minimum of ten (10) hours per day, seven (7) days per week, or as required by any lease or sublease if different, except where prohibited or otherwise regulated by a governmental authority, including any state or local licensing authority, and shall otherwise conduct the business in accordance with generally accepted business standards. These requirements may be changed by Franchisor from time to time and upon reasonable notice to Franchisee and may differ from one franchisee to another, based upon the specific characteristics of a particular location.

ARTICLE XX **TRANSFERABILITY OF INTEREST**

20.1 Franchisee understands and acknowledges that the rights and duties created by this Agreement are personal to Franchisee, and that neither this Agreement nor the franchise granted shall be assignable or transferable by Franchisee, nor may the same be mortgaged, pledged or encumbered by him without the express prior written consent of Franchisor. Any purported assignment, mortgage, pledge or encumbrance of any rights under this Agreement or the franchise, without the prior written consent of Franchisor, shall be null and void. The issuance or transfer of any stock (including by way of any public stock offering) or partnership interest(s) in Franchisee, or its merger, a consolidation or dissolution, if Franchisee is a corporation or a partnership, shall be deemed an assignment of this Agreement and of the franchise.

20.2 If Franchisee is an individual, Franchisor hereby consents, upon thirty (30) days' prior written notice, to the assignment by Franchisee of all of Franchisee's rights and benefits under this

Agreement to a corporation of which Franchisee owns at least a majority of the voting and equity stock, provided that

A Such corporation is newly organized and its activities and corporate purposes are confined exclusively to acting as a restaurant franchised under this Agreement,

B Such corporation and all of its stockholders execute a Transfer of Franchise to a Corporation form, or such other form as shall be provided or approved by Franchisor, in which they jointly and severally assume all of the past and future obligations of Franchisee under this Agreement, to the same extent as if they had originally executed this Agreement as Franchisee,

C Franchisee or Franchisee's designated manager actively manages such corporation and continues to devote Franchisee's best efforts and full and exclusive time to the day-to-day operation and development of the franchise and the business of the Cafe and Franchisee shall remain personally liable in all respects under this Agreement, including but not limited to payment for the purchase of any of the Products, jointly and severally with such corporation and any and all other stockholders thereof, and

D All stock certificates of such corporation bear a legend substantially in the following form, which shall be printed legibly and conspicuously on the front of each such stock certificate

"The transfer of this stock certificate is subject to the terms and conditions of a certain Franchise Agreement entered into with Macchiato Group, Inc dated _____, 20__"

20 3 If Franchisee, any stockholder or partner of a corporate or partnership Franchisee, or any legal heir or legatee of any deceased Franchisee, or of any deceased stockholder or partner of any corporate or partnership Franchisee, desires to effect any sale or assignment of any partnership interest, stock or other interest in this Agreement, or of Franchisor's rights and benefits under this Agreement, including, without limitation, the franchise granted by this Agreement, and/or the ownership or sublease for the Cafe franchised by this Agreement, Franchisee or such other authorized person or party shall give Franchisor written notice of all of the terms of any such bona fide offer within fifteen (15) days after receipt of such offer, and providing Franchisor with all other documents and data required prior to Franchisor approving the sale. Franchisor shall have the right of first refusal, for a period of fifteen (15) days after receipt of such notice, to notify Franchisee or such other authorized person or party of Franchisee's desire to exercise such option under the same terms and conditions as the bona fide offer. If Franchisor fails to exercise such option in the time period allotted, then Franchisee shall be free to contract with the person who made such bona fide offer solely on the same terms and conditions, subject to Franchisee's compliance with all of the other terms and provisions of this Agreement. In the event the terms of such bona fide offer change at any time, then at the time of any change, Franchisee must re-offer the franchise to Franchisor for an additional fifteen (15) day period.

20 4 In addition to all of the other conditions set forth in Sections 20 2 and 20 3 above that pertain to the right of Franchisee to assign, transfer or sell the license created hereunder, Franchisee agrees that any and all rights of assignment, transfer or sale by Franchisee of this franchise and the its rights are conditioned upon compliance with each of the following

A Any such assignment, transfer, or sale shall be subject to the approval by Franchisor of such assignee, and of the moral and credit background of such assignee and any and all stockholders or partners of assignee, which approval shall not be unreasonably withheld,

B The assignee, transferee, or purchaser, and all stockholders or partners thereof, if same is a corporation or partnership, shall at Franchisor's option either personally assume in writing all of the obligations of Franchisee, disclosed or undisclosed including all obligations under this Agreement, or execute the then-current Franchise Agreement, in the form used by Franchisor, except that the Royalty Fee and Advertising Fee under the then-current Franchise Agreement shall not be greater than that provided by Article V and IX above for the remainder of what would have been the initial term of this Agreement. However, Franchisor shall have the right to reasonably increase the Royalty Fee and the Advertising Fee, in conformity with the System, during any renewals of the Agreement,

C Franchisee, such assignee, transferee or purchaser and any and all stockholders or partners thereof, shall execute a general release in favor of Franchisor, its officers, directors, and employees, of any and all claims and causes of action that they may have against Franchisor or its subsidiary or affiliated corporations in any way relating to this Agreement or the performance or non-performance under this Agreement by Franchisor,

D All prior obligations and debts of Franchisee or corporate assignee of Franchisee owed to Franchisor under or in connection with this Agreement shall be paid concurrently with such assignment,

E Franchisee must not be in default under this Agreement or any renewals of this Agreement or of any lease or sublease agreement to which Franchisee is a party,

F Assignee, transferee or purchaser shall not be in the same business as Franchisor either as a franchisor, licensor, independent operator or franchisee of any chain or network which is similar in nature or in competition with Franchisor except that the assignee, transferee or purchaser may be an existing franchisee of Franchisor,

G Prior to the effective date of the assignment, transfer or sale, the assignee, transferee, or purchaser must satisfactorily complete Franchisor's training program required of all new franchisees,

H Assignee, transferee, or purchaser shall, prior to any such assignment, pay to Franchisor a non-refundable training and transfer fee equal to Three Thousand Five Hundred Dollars (\$3,500) to reimburse Franchisor for its legal and accounting fees, credit investigation, training expenses, and other charges and expenses in connection with such assignment, transfer or sale, and

I Franchisee shall enter into an agreement with Franchisor agreeing to subordinate such assignee's, transferee's or purchaser's obligations to Franchisor, including, without limitation, any Royalty Fees and Advertising Fees, and any obligations of such assignee, transferee or purchaser to make installment payments of the purchase price to Franchisee

20.5 Franchisor shall have the right, without the need for Franchisee's consent, to assign, transfer or sell its rights under this Agreement to any person, partnership, corporation or other legal entity, provided that the transferee agrees in writing to assume all obligations undertaken by Franchisor in this Agreement and Franchisee receives a statement from both Franchisor and its transferee to that effect. Upon such assignment and assumption, Franchisor shall be under no further obligation hereunder, except for accrued liabilities, if any. Franchisee further agrees and affirms that Franchisor may go public, may

engage in a private placement of some or all of its securities, may merge, acquire other corporations, or be acquired by another corporation, and/or may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring. With regard to any of the above sales, assignments and dispositions, Franchisee expressly and specifically waives any claims, demands or damages arising from or related to the loss of Franchisor's name, Marks (or any variation thereof) and System and/or the loss of association with or identification of Macchiato Group, Inc. as Franchisor under this Agreement. Franchisee specifically waives any and all other claims, demands or damages arising from or related to the foregoing merger, acquisition and other business combination activities including, without limitation, any claim of divided loyalty, breach of fiduciary duty, fraud, breach of contract or breach of the implied covenant of good faith and fair dealing.

Franchisee acknowledges and agrees that Franchisor has the right, now or in the future, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business, regardless of the location of that chain's or business's facilities, and to operate, franchise or license those businesses and/or facilities as Macchiato Cafés operating under the Marks or any other marks following Franchisor's purchase, merger, acquisition or affiliation, regardless of the location of these facilities, which Franchisee acknowledges may be near to any of Franchisee's locations.

If Franchisor assigns its rights in this Agreement, nothing in this Agreement shall be deemed to require Franchisor to remain in the "Macchiato" business or to offer or sell any products or services to Franchisee.

20.6 In addition to the requirements of this Article, Franchisee must, within fifteen (15) days of receipt of an offer to buy, give Franchisor additional written notice whenever Franchisee has received an offer from a third party to buy Franchisee's business franchised under this Agreement. Franchisee must also give Franchisor written notice simultaneously with any offer to sell Franchisee's Cafe made by, for, or on behalf of Franchisee. The purpose of this Subsection is to enable Franchisor to comply with any applicable state or federal franchise disclosure law or rules. Franchisee will indemnify and hold Franchisor harmless for Franchisee's failure to comply with this Subsection.

20.7 Franchisor's consent to an assignment of any interest subject to the restrictions of this Agreement shall not constitute a waiver of any claims it may have against the assignor, nor shall it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms or conditions of this Agreement by the assignee, transferee or purchaser.

20.8 If, subject to the restrictions and conditions of transfer contained in this Article, Franchisee shall attempt to raise or secure funds by the sale of securities (including, without limitation, common or preferred stock, bonds, debentures or general or limited partnership interests) in Franchisee or any affiliates of Franchisee, Franchisee, recognizing that the written information used with respect thereto may reflect upon Franchisor, will submit any such written information to Franchisor prior to its inclusion in any registration statement, prospectus or similar offering circular or memorandum and will obtain the written consent of Franchisor to the method of financing prior to any offering or sale of such securities. For each proposed offering, Franchisee shall pay Franchisor a non-refundable fee in an amount equal to Three Thousand Five Hundred Dollars (\$3,500) in order to reimburse Franchisor for its reasonable costs and expenses associated with reviewing the proposed offering, including, without limitation, legal and accounting fees. The written consent of Franchisor pursuant to this Section 20.8 shall not imply or constitute the approval of Franchisor with respect to the method of financing, the offering literature submitted to Franchisor or any other aspect of the offering. No information respecting Franchisor or any of its affiliates shall be included in any securities disclosure document, unless such information has been furnished by Franchisor, in writing, pursuant to the written request of Franchisee, in which Franchisee

states the specific purpose for which the information is to be used. Should Franchisor, in its sole discretion, object to any reference to Franchisor or any of its affiliates or any of their businesses in such offering literature or prospectus, such literature or prospectus shall not be used unless and until the objections of Franchisor are withdrawn. Franchisor assumes no responsibility for any offering.

The prospectus or other literature utilized in any such offering shall contain the following language in bold-face type on the first textual page thereof:

"NEITHER MACCHIATO GROUP, INC NOR ANY OF ITS AFFILIATES ASSUMES ANY RESPONSIBILITY WITH RESPECT TO THIS OFFERING AND/OR THE ADEQUACY OR ACCURACY OF THE INFORMATION SET FORTH HEREIN, INCLUDING ANY STATEMENTS MADE WITH RESPECT TO ANY OF THEM. NEITHER MACCHIATO GROUP, INC NOR ANY OF ITS AFFILIATES ENDORSES OR MAKES ANY RECOMMENDATION WITH RESPECT TO THE INVESTMENT CONTEMPLATED BY THIS OFFERING."

Franchisee and each of its owners agrees to indemnify, defend and hold harmless Franchisor and its affiliates, and their respective officers, directors, employees and agents, from any and all claims, demands, liabilities, and all costs and expenses (including, without limitation, reasonable attorneys' fees) incurred in the defense of such claims, demands or liabilities, arising from the offer or sale of such securities, whether asserted by a purchaser of any such security or by a governmental agency. Franchisor shall have the right (but not the obligation) to defend any such claims, demands or liabilities and/or to participate in the defense of any action to which Franchisor or any of its affiliates or any of their respective officers, directors, employees or agents is named as a party.

ARTICLE XXI

DEATH OR INCAPACITY OF FRANCHISEE

21.1 In the event of the death or permanent incapacity or disability of Franchisee, i.e., Franchisee is unable to operate the Café as an individual franchisee, or any partner of a Franchisee which is a partnership, or any shareholder owning fifty percent (50%) or more of the capital stock of a Franchisee which is a corporation, Franchisor shall consent to a transfer of that Franchisee's interest to Franchisee's heirs, beneficiaries or family designees (referred to in this Article as "Transferee") without payment of a transfer fee, subject to the following conditions:

A Transferee must complete, and be approved through, Franchisor's standard franchise selection process, including satisfactorily demonstrating to Franchisor that Transferee meets the financial character and managerial criteria as Franchisor shall then be applying in considering applications for new franchisees,

B Transferee shall agree, in writing, to personally assume liability for and to perform all the terms and conditions of this Agreement to the same extent as the original Franchisee, and

C If Transferee is not approved, Franchisee or Franchisee's legal representative shall use that person's best efforts to sell the Café to a party acceptable to Franchisor within twelve (12) months from the date of Franchisee's death or permanent incapacity or disability and Franchisor shall have the option, but not the obligation, to operate and/or manage the Café for the account of Franchisee's estate until the deceased or incapacitated Franchisee's interest is transferred to another party acceptable to

Franchisor Should Franchisor elect to operate and/or manage the franchised Cafe, Franchisor shall make a complete accounting and shall forward fifty percent (50%) of the net income for the operation of the Cafe to Franchisee's estate. If the conveyance of the Cafe to a party acceptable to Franchisor has not taken place within the twelve (12) month period, Franchisor shall have the option, but not the duty, to purchase the Cafe and its equipment at the fair market value thereof as determined by independent qualified appraisers selected by Franchisor and the estate. In the event that these appraisers cannot agree on a fair market value, a third appraiser shall be selected by the other two appraisers and that appraiser's determination shall be binding on both parties. However, if Franchisor chooses not to repurchase the Cafe, then it may elect to terminate this Agreement, in which event the business franchised under this Agreement will automatically revert back to Franchisor, with Franchisor being obligated to purchase the equipment and trade fixtures at their book value, as set forth in the last certified financial statement of Franchisee.

ARTICLE XXII

OPERATION IN THE EVENT OF ABSENCE OR DISABILITY

In order to prevent any interruption of the Cafe operations which would cause harm to the Cafe, thereby depreciating its value, if Franchisee is absent for any reason or is incapacitated by reason of illness and is unable, in the sole and reasonable judgment of Franchisor, to operate the Cafe or upon Franchisee's failure to cure any default within the applicable time period (if any) provided under this Agreement, Franchisee authorizes Franchisor, who may, at its option, operate the Cafe for so long as Franchisor deems necessary and practical, and without waiver of any other rights or remedies Franchisor may have under this Agreement. All monies from the operation of the Cafe during such period of operation by Franchisor shall be kept in a separate account, the expenses of the Cafe, including reasonable compensation and expenses for Franchisor's representative, shall be charged to that account. Franchisor also has the right to charge a management fee of twenty percent (20%) of the Gross Sales earned during the period that Franchisor's appointed manager operates the Cafe. If, as provided in this Article, Franchisor temporarily operates the Cafe for Franchisee, Franchisee will indemnify and hold harmless Franchisor and any representative of Franchisor who may act under this Agreement, from any and all acts which Franchisor may perform, as regards the interests of Franchisee or third parties.

ARTICLE XXIII

INJUNCTIVE RELIEF

23.1 If Franchisee is in default, except for default with respect to monies required to be paid by Franchisee to Franchisor, under any provisions of this Agreement, Franchisor shall be entitled to seek a permanent injunction and any preliminary or temporary equitable relief in order to restrain the violation of this Agreement by Franchisee or any person acting for Franchisee or in Franchisee's behalf. Franchisor shall be entitled to its reasonable attorneys' fees and courts costs in connection with taking such action or in connection with any other remedy sought by Franchisor, provided Franchisor is the prevailing party. This remedy shall be cumulative to any other remedy available to Franchisor.

23.2 Franchisee agrees that it is impossible to measure in money the damages which Franchisor will sustain in the event of Franchisee's breach of this Agreement and, therefore, in the event Franchisor institutes injunctive proceedings under this Article, Franchisee waives the defense that Franchisor has an adequate remedy at law.

ARTICLE XXIV
RISK OF OPERATIONS

FRANCHISEE RECOGNIZES THAT THERE ARE MANY UNCERTAINTIES AND RISKS OF THIS BUSINESS, AND, THEREFORE, FRANCHISEE AGREES AND ACKNOWLEDGES THAT, EXCEPT AS SPECIFICALLY SET FORTH IN THIS AGREEMENT, NO REPRESENTATIONS, WARRANTIES, GUARANTEES OR AGREEMENTS HAVE BEEN MADE TO FRANCHISEE, EITHER BY FRANCHISOR OR BY ANYONE ACTING ON ITS BEHALF OR PURPORTING TO REPRESENT IT, INCLUDING, BUT NOT LIMITED TO, THE PROSPECTS FOR SUCCESSFUL OPERATIONS, THE LEVEL OF BUSINESS OR PROFITS THAT FRANCHISEE MIGHT REASONABLY EXPECT, OR THE DESIRABILITY, PROFITABILITY OR EXPECTED CUSTOMER VOLUME OF THE STORE FRANCHISEE HEREBY ACKNOWLEDGES THAT ALL SUCH FACTORS ARE NECESSARILY DEPENDENT UPON VARIABLES WHICH ARE BEYOND FRANCHISOR'S CONTROL, INCLUDING, WITHOUT LIMITATION, THE ABILITY, MOTIVATION, AMOUNT AND QUALITY OF EFFORT EXPENDED BY FRANCHISEE FRANCHISEE RELEASES FRANCHISOR, ITS SUBSIDIARY OR AFFILIATED CORPORATIONS, OFFICERS, DIRECTORS, AFFILIATES AND EMPLOYEES FROM ANY CLAIMS, SUITS AND LIABILITY RELATING TO THE OPERATION OF FRANCHISEE'S STORE INCLUDING, BUT NOT LIMITED TO, THE RESULTS OF ITS OPERATIONS, EXCEPT TO THE EXTENT THAT THE SAME IS PREDICATED UPON THE BREACH OF A SPECIFIC WRITTEN OBLIGATION OF FRANCHISOR CONTAINED IN THIS AGREEMENT

ARTICLE XXV
OTHER OBLIGATIONS

Nothing contained in this Agreement shall inhibit or limit the unrestricted right of Franchisor to enter into or engage in any business or in the sale itself, or the licensing to others for the sale, of the proprietary food items other than the limitations imposed upon Franchisor by Article I above, Franchisee shall have no rights, benefits or entitlement with respect thereto

ARTICLE XXVI
FORCE MAJEURE

Neither party shall be responsible to the other for non-performance or delay in performance occasioned by causes beyond its control, including without limitation, the generality of the foregoing acts or omission of other party, acts of civil or military authority, strikes, lockouts, embargoes, insurrections or acts of God, inability of Franchisor to purchase, deliver and/or manufacture of any of the proprietary food items, provided that inability of a party to obtain funds shall be deemed to be a cause within the control of such party If any such delay occurs, any applicable time period shall be automatically extended for a period equal to the time lost, provided that the party affected makes reasonable efforts to correct the reason for such delay and gives to the other party prompt notice of any such delay

ARTICLE XXVII
WAIVER OF VIOLATION OR DEFAULT

Waiver by Franchisor or Franchisee of any violation or default hereunder shall not alter or impair either party's right with respect to any subsequent violation or default, nor shall any delay or omission on the part of either party to exercise any right arising from such violation of default alter or impair such

party's rights as to the same or any future violation or default. An acceptance by Franchisor of any payment from Franchisee after the date on which such payment is due shall not operate as a waiver of Franchisee's default or violation hereunder, nor alter or impair Franchisor's rights with respect to such violation or default.

ARTICLE XXVIII **NOTICE AND TIME**

28.1 All communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when delivered personally or by fax transmission, or one (1) business day after being sent by overnight commercial courier service for next business day delivery, or five (5) days after being deposited in the United States mail, for certified or registered delivery, return receipt requested, postage prepaid. Notice to Franchisor shall be addressed to

Notices to Franchisor

Macchiato Group, Inc

15838 Halliburton Road
Hacienda Heights, CA 91745
Tel (626) 872-1351
Attention: President

Notice to Franchisee shall be addressed to

Either party may designate another address at any time by written notice to the other. Additionally, all payments and reports, required to be made, by Franchisee under this Agreement shall be given to Franchisor at the above address, except that regular reports may be sent by regular mail.

28.2 Time is of the essence in this Agreement with respect to each and every provision in which time is a factor. Whenever this Agreement refers to a period of days, the first day to be counted shall be the first day following the designated action or event. For any period of five (5) or fewer days, only business days (excluding Saturdays, Sundays and national holidays) shall be counted. Unless expressly stated otherwise, any period longer than five (5) days shall be measured by calendar days, except that if the last day of any such period is not a business day, the period shall automatically be extended to the next business day.

ARTICLE XXIX **APPLICABLE LAW AND VENUE**

29.1 This Agreement takes effect upon its acceptance and execution by Franchisor in California, and shall be interpreted and construed under the laws of California, which laws shall prevail in the event of any conflict of law.

29 2 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 in this Agreement or by law or equity provided or permitted, but each shall be cumulative of every other right or remedy

29 3 Nothing contained in this Agreement shall bar Franchisor's right to seek injunctive relief against threatened conduct that will cause it loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions

29 4 Franchisee acknowledges that Franchisee has and will continue to develop a substantial and continuing relationship with Franchisor at its principal offices in the State of California, where Franchisor's decision-making authority is vested and franchise operations are conducted and supervised. Therefore, the parties irrevocably agree and consent that in any action or proceeding brought by either party to this Agreement, each will submit to the exclusive jurisdiction and venue of any local, state or federal court located in Los Angeles County, California

29 5 The parties agree to waive, now and forever, any and all rights either may have under the federal RICO statute

29 6 The parties waive to the fullest extent permitted by law, any right to or claim for any punitive or exemplary damages against the other, and agree that in the event of a dispute between them, each shall be limited to the recovery of any actual damages sustained by it. The parties irrevocably waive trial by jury in any action, proceeding or counterclaim, whether at law or in equity, brought by either of them

29 7 In the event Franchisor employs legal counsel or incurs other expense to enforce any obligation of Franchisee under this Agreement, or to defend against any claim, demand, action or proceeding by reason of Franchisee's failure to perform any obligation imposed upon Franchisee by this Agreement, Franchisor shall be entitled to recover from Franchisee the amount of all reasonable attorneys' fees of such counsel and all other expenses incurred in enforcing such obligation or in defending against such claim, demand, action, or proceeding, whether incurred prior to or in preparation for or contemplation of the filing of such action or thereafter

29 8 Franchisee agrees that he/she/it will not, on grounds of the alleged non-performance by Franchisor of any of its obligations under this Agreement, withhold payment of any Royalty Fee, advertising contributions or any other amounts due to Franchisor

ARTICLE XXX **ARBITRATION**

30 1 IF ANY PARTY IS REQUIRED TO EMPLOY LEGAL COUNSEL OR TO INCUR OTHER REASONABLE EXPENSES TO ENFORCE ANY OBLIGATION OF ANOTHER PARTY, OR TO DEFEND AGAINST ANY CLAIM, DEMAND, ACTION, OR PROCEEDING BY REASON OF ANOTHER PARTY'S FAILURE TO PERFORM ANY OBLIGATION IMPOSED UPON SUCH PARTY BY THIS AGREEMENT, AND PROVIDED THAT LEGAL ACTION IS FILED BY OR AGAINST THE FIRST PARTY AND SUCH ACTION OR ITS SETTLEMENT ESTABLISHES THE OTHER PARTY'S DEFAULT, THEN THE PREVAILING PARTY SHALL BE ENTITLED TO RECOVER FROM THE OTHER PARTY THE AMOUNT OF ALL REASONABLE ATTORNEYS' FEES OF SUCH COUNSEL AND ALL OTHER EXPENSES REASONABLY INCURRED IN ENFORCING SUCH OBLIGATION OR IN DEFENDING AGAINST SUCH CLAIM, DEMAND,

ACTION, OR PROCEEDING, WHETHER INCURRED PRIOR TO OR IN PREPARATION FOR OR CONTEMPLATION OF THE FILING OF SUCH ACTION OR THEREAFTER NOTHING CONTAINED IN THIS PARAGRAPH SHALL RELATE TO ARBITRATION PROCEEDINGS PURSUANT TO THIS AGREEMENT

30 2 EXCEPT AS SPECIFICALLY OTHERWISE PROVIDED IN THIS AGREEMENT, THE PARTIES AGREE THAT ALL CONTRACT DISPUTES THAT CANNOT BE AMICABLY SETTLED BETWEEN THEM SHALL BE DETERMINED SOLELY AND EXCLUSIVELY BY ARBITRATION UNDER THE FEDERAL ARBITRATION ACT, AS AMENDED, AND IN ACCORDANCE WITH THE RULES OF THE AMERICAN ARBITRATION ASSOCIATION OR ANY SUCCESSOR THEREOF ARBITRATION SHALL TAKE PLACE IN LOS ANGELES COUNTY, CALIFORNIA

30 3 EACH PARTY SHALL SELECT ONE (1) ARBITRATOR (WHO SHALL NOT BE COUNSEL FOR THE PARTY), AND THE TWO (2) SO DESIGNATED SHALL SELECT A THIRD ARBITRATOR IF EITHER PARTY SHALL FAIL TO DESIGNATE AN ARBITRATOR WITHIN SEVEN (7) DAYS AFTER ARBITRATION IS REQUESTED, OR IF THE TWO ARBITRATORS SHALL FAIL TO SELECT A THIRD ARBITRATOR WITHIN FOURTEEN (14) DAYS AFTER ARBITRATION IS REQUESTED, THEN AN ARBITRATOR SHALL BE SELECTED BY THE AMERICAN ARBITRATION ASSOCIATION OR ANY SUCCESSOR THERETO UPON APPLICATION OF EITHER PARTY JUDGMENT UPON ANY AWARD OF THE MAJORITY OF THE ARBITRATORS SHALL BE BINDING AND SHALL BE ENTERED IN A COURT OF COMPETENT JURISDICTION THE AWARD OF THE ARBITRATORS MAY GRANT ANY RELIEF WHICH MIGHT BE GRANTED BY A COURT OF GENERAL JURISDICTION, INCLUDING, WITHOUT LIMITATION, BY REASON OF ENUMERATION, AWARD OF DAMAGES (BUT EXCLUDING INJUNCTIVE RELIEF), AND MAY, IN THE DISCRETION OF THE ARBITRATORS, ASSESS, IN ADDITION, THE COSTS OF ARBITRATION, INCLUDING THE REASONABLE FEES OF THE ARBITRATORS AND REASONABLE ATTORNEYS' FEES, AGAINST EITHER OR BOTH PARTIES, IN PROPORTIONS AS THE ARBITRATORS SHALL DETERMINE

30 4 NOTHING CONTAINED IN THIS AGREEMENT SHALL BAR EITHER PARTY FROM SEEKING AND OBTAINING TEMPORARY AND PERMANENT INJUNCTIVE RELIEF FROM A COURT OF COMPETENT JURISDICTION CONSISTENT WITH THIS ARTICLE XXX IN ACCORDANCE WITH APPLICABLE LAW AGAINST THREATENED CONDUCT THAT WILL, IN SUCH PARTY'S DISCRETION, CAUSE SUCH PARTY LOSS OR DAMAGE

30 5 THE PARTIES INTEND THAT ANY ARBITRATION BETWEEN FRANCHISEE AND FRANCHISOR REGARDING A CLAIM OF FRANCHISEE SHALL BE OF FRANCHISEE'S INDIVIDUAL CLAIM, AND THAT NO SUCH CLAIM SUBJECT TO ARBITRATION SHALL BE ARBITRATED ON A CLASS-WIDE BASIS

30 6 FRANCHISEE SHALL NOT ASSERT ANY CLAIM OR CAUSE OF ACTION AGAINST FRANCHISOR, ITS OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES OR AFFILIATES AFTER ONE (1) YEAR FOLLOWING THE EVENT GIVING RISE TO SUCH CLAIM OR CAUSE OF ACTION

ARTICLE XXXI
ACKNOWLEDGMENTS

31.1 FRANCHISEE ACKNOWLEDGES THAT FRANCHISEE HAS CONDUCTED AN INDEPENDENT INVESTIGATION OF THE FRANCHISED BUSINESS, AND RECOGNIZES THAT THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT INVOLVES BUSINESS RISKS, AND THAT FRANCHISEE'S SUCCESS WILL BE LARGELY DEPENDENT UPON THE ABILITY OF FRANCHISEE AS AN INDEPENDENT BUSINESS PERSON. FRANCHISOR EXPRESSLY DISCLAIMS THE MAKING OF, AND FRANCHISEE ACKNOWLEDGES THAT FRANCHISEE HAS NOT RECEIVED, ANY WARRANTY OR GUARANTEE, EXPRESS OR IMPLIED, AS TO THE POTENTIAL VOLUME, PROFITS, OR SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT.

31.2 FRANCHISEE ACKNOWLEDGES THAT FRANCHISEE HAS RECEIVED, READ, AND UNDERSTOOD THIS AGREEMENT, INCLUDING ITS EXHIBITS, THAT FRANCHISOR HAS FULLY AND ADEQUATELY EXPLAINED THE PROVISIONS OF EACH TO FRANCHISEE'S SATISFACTION, AND THAT FRANCHISOR HAS ACCORDED FRANCHISEE AMPLE TIME AND OPPORTUNITY TO CONSULT WITH ADVISORS OF FRANCHISEE'S OWN CHOOSING ABOUT THE POTENTIAL BENEFITS AND RISKS OF ENTERING INTO THIS AGREEMENT.

31.3 FRANCHISEE ACKNOWLEDGES THAT FRANCHISEE HAS RECEIVED A COMPLETE COPY OF FRANCHISOR'S FRANCHISE DISCLOSURE DOCUMENTS, THIS AGREEMENT, THE EXHIBITS REFERRED TO IN THIS AGREEMENT, AND ANY OTHER AGREEMENTS RELATING HERETO, IF ANY, AT LEAST FOURTEEN (14) CALENDAR DAYS PRIOR TO THE DATE ON WHICH THIS AGREEMENT WAS EXECUTED.

31.4 FRANCHISEE ACKNOWLEDGES AND IS AWARE OF THE FACT THAT SOME FRANCHISEES OF FRANCHISOR MAY OPERATE UNDER DIFFERENT FORMS OF AGREEMENTS AND, CONSEQUENTLY, THAT FRANCHISOR'S OBLIGATIONS AND RIGHTS IN RESPECT TO ITS VARIOUS FRANCHISEES MAY DIFFER MATERIALLY IN CERTAIN CIRCUMSTANCES.

ARTICLE XXXII
ENTIRE AGREEMENT

This Agreement, together with the Area Development Agreement, if applicable, and any other Franchise Agreements thereunder, constitutes the entire agreement between Franchisor and Franchisee with respect to the subject matter hereof, and this Agreement supersedes all prior and contemporaneous agreements between Franchisor and Franchisee in connection with its subject matter. Nothing in this Agreement or in any related agreement, however, is intended to disclaim the representations we made in the Franchise Disclosure Document that we furnished to you. In the event of any conflict between the terms of this Agreement and the terms of the Area Development Agreement, if applicable, or any other Franchise Agreement, the terms of this Agreement shall prevail. No officer, employee or other servant or agent of Franchisor or Franchisee is authorized to make any representation, warranty or other promise not contained in this Agreement. No change, termination or attempted waiver of any of the provisions of this Agreement shall be binding upon Franchisor or Franchisee unless in writing and signed by Franchisor and Franchisee.

ARTICLE XXXIII
JOINT AND SEVERAL OBLIGATION

If Franchisee consists of more than one (1) person, their liability under this Agreement shall be deemed to be joint and several

ARTICLE XXXIV
SECURITY INTEREST

Franchisee grants to Franchisor a security interest in all of Franchisee's interest in all leasehold improvements, furniture, furnishings, fixtures, equipment, inventory and supplies located at or used in connection with the Cafe, now or hereafter leased or acquired, together with all attachments, accessions, accessories, additions, substitutions and replacements therefore, and all cash and non-cash proceeds derived from insurance or the disposition of such collateral, to secure payment and performance of all debts, liabilities and obligations of any kind, whenever and however incurred, of Franchisee to Franchisor. Franchisee agrees to execute and deliver to Franchisor in a timely manner all financial statements and other documents necessary or desirable to evidence, perfect and continue the priority of such security interests under the Uniform Commercial Code. For such purposes, the address of Franchisee and Franchisor are set forth in Article XXVIII of this Agreement. If Franchisee is in good standing, Franchisor will, upon request, execute subordinations of its security interest to suppliers, lenders and/or lessors furnishing equipment or financing for the Cafe.

ARTICLE XXXV
COUNTERPART, PARAGRAPH HEADINGS, PRONOUNS

This Agreement may be executed in any number of counterparts, all of which when taken together shall constitute one and the same instrument. The paragraph headings in this Agreement are for convenience only, and shall not be deemed to alter or affect any of its provisions. Each pronoun used in this Agreement shall be deemed to include the other number of genders.

ARTICLE XXXVI
SEVERABILITY AND CONSTRUCTION

36.1 Each section, part, term and provision of this Agreement shall be considered severable, and if, for any reason, any section, part, term or provision is determined to be invalid and contrary to, or in conflict with, any existing or future law or regulation, that shall not impair the operation of, or affect the remaining portions, parts, terms or provisions of this Agreement, and the latter will continue to be given full force and effect and bind the parties, and the invalid sections, parts, terms or provisions shall be deemed not to be a part of this Agreement, provided, however, that if Franchisor determines that the finding of illegality adversely affects the basic consideration of this Agreement, Franchisor and Franchisee may terminate this Agreement.

36.2 Anything to the contrary in this Agreement 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 such of their respective successors and assigns as may be contemplated by this Agreement, any rights or remedies under or by reason of this Agreement.

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

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

36.5 This Agreement shall be executed in two or more counterparts, and each copy so executed shall be deemed a duplicate original

The parties have executed this Agreement on the date first written above

FRANCHISOR

FRANCHISEE

By _____

By _____

MACCHIATO GROUP, INC

FRANCHISE AGREEMENT

EXHIBIT "A"

LOCATION AND TERRITORY

Franchisee's Location and Territory shall be as follows

FRANCHISOR

By _____

FRANCHISEE

By _____
Franchisee

MACCHIATO GROUP, INC

FRANCHISE AGREEMENT

EXHIBIT "B"

GUARANTEE AGREEMENT

THIS GUARANTEE AGREEMENT ("Guarantee") entered into this ____ day of _____, 20__, by and between Macchiato Group, Inc, a California corporation ("Secured Party" or "Franchisor") and each of the undersigned persons and their spouses (each a "Guarantor"), being all of the shareholders or members, partners, principals or other owners or controlling persons, as applicable, of the "Franchisee" or "Debtor" (as hereafter defined)

WITNESETH

WHEREAS, Franchisee, ("Franchisee" or "Debtor") has entered into a Franchise Agreement dated _____, 20__ (collectively, the "Franchise Agreement") with the Secured Party,

WHEREAS, Guarantor holds ____% of ownership interest in the Franchisee or other beneficial owner or controlling person, as applicable, in Debtor, or a spouse of such person, and will benefit from the Franchise Agreement,

WHEREAS, the Secured Party is willing to enter the Franchise Agreement with Debtor only if Guarantor agrees to guarantee the full, prompt, complete and faithful performance of all the terms, covenants, conditions and obligation(s) on Debtor's part to be performed under the Franchise Agreement, and all other agreements and instruments ancillary to such agreements, and including any amendments or renewals thereof (the "Documents"),

NOW, THEREFORE, in order to induce the Secured Party to enter the Franchise Agreement and the Documents with Debtor and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, each Guarantor hereby jointly and severally agrees to be bound by the Documents and jointly and severally covenants and agrees with the Secured Party as follows

ARTICLE I
GUARANTEE

11 Guarantor unconditionally guarantees the full, prompt, complete and faithful performance, payment, observance and fulfillment by Debtor of all of the terms, covenants and conditions and any obligation(s) under the Documents when due and any and all fees, royalties and other sums that may become due to the Secured Party from Debtor under the Documents ("Obligation(s)") Guarantor further agrees to pay all expenses (including reasonable attorneys' fees and legal expenses) incurred by the Secured Party in endeavoring to collect the Obligation(s), or any part thereof, or in securing the performance thereof, or in enforcing this Guarantee

12 Guarantor hereby covenants and agrees unconditionally that in the event Debtor fails to make any payment due under the Obligations on the due date as set forth in the Documents, or an event of default occurs, as defined in the Documents ("Event of Default"), within ten (10) days of the receipt of

written notice from or on behalf of the Secured Party to the effect that there exists such an Event of Default and of the amount or nature of the Obligation(s) which Debtor has failed to pay or perform, Guarantor will pay the entire unpaid amount thereof to the Secured Party at its office set forth on the signature page attached hereto. In the event that the Guarantor should fail or decline to pay any sums properly due to the Secured Party hereunder within ten (10) days following the Secured Party's request for the payment of any such sums, then said sums shall bear interest at annual interest rate equal to twelve percent (12%). Further, if Guarantor shall fail to pay any amount or perform any Obligation(s) properly due to the Secured Party hereunder, the Secured Party may institute and pursue any action or proceeding to judgment or final decree and may enforce any such judgment or final decree against Guarantor and collect, in the manner provided by law, out of Guarantor's property, wherever situated, the monies adjudged or decreed to be payable.

13 This Guarantee shall not be limited to any particular period of time, but rather shall continue absolutely, unconditionally and irrevocably until all the terms, covenants and conditions of the Documents have been fully and completely performed by Debtor or otherwise discharged and/or released by the Secured Party, and Guarantor shall not be released from any duty, obligation or liability hereunder so long as there is any claim of the Secured Party against Debtor arising out of the Documents which have not been performed, settled or discharged in full.

ARTICLE II

REMEDIES AND RIGHTS OF SECURED PARTY

21 The Secured Party shall give Guarantor notice in writing of an Event of Default or any event which might mature into an Event of Default known to Secured Party (but neither failure to give, nor defect in, any notice shall extinguish or in any way affect the Obligation(s) of Guarantor hereunder). Neither demand on, nor the pursuit of any remedies against, Debtor or any other guarantor of the Obligation(s) ("Obligor") shall be required as a condition precedent to, or neither the dependency nor the prior termination of any action, suit or proceeding against the Debtor or any Obligor (whether for the same or a different remedy) shall bar or prejudice the making of a demand on Guarantor by the Secured Party and the commencement against Guarantor after such demand of, any action, suit or proceeding, at law or in equity, for the specific performance of any covenant or agreement contained in the Documents or for the enforcement of any other appropriate legal or equitable remedy.

22 Guarantor's liability hereunder is primary, direct and immediate. Guarantor agrees that neither

(i) The exercise or the failure to exercise by the Secured Party of any rights or remedies conferred on it under the Documents, hereunder or existing at law or otherwise, or against any collateral,

(ii) The recovery of a judgment against Debtor or Obligor,

(iii) The commencement of an action at law or the recovery of a judgment at law against Debtor or any Obligor and the enforcement thereof through levy or execution or otherwise,

(iv) The taking or institution or any other action or proceeding against Debtor or any Obligor, nor

(v) The delay in taking, pursuing or exercising any of the foregoing actions, rights, powers or remedies (even though requested by Guarantor) by the Secured Party.

shall extinguish or affect the Obligation(s) of Guarantor hereunder, but Guarantor shall be and remain liable for and until all Obligation(s) shall have been fully paid notwithstanding the previous discharge (total or partial) from further liability of Debtor or any Obligor or the existence of any bar (total, partial or temporary) to the pursuit by Guarantor of any right or claim to be subrogated to the right or claims of the Secured Party resulting from any action or failure or omission to act or delay in acting by the Secured Party, or anyone entitled to act in its place

2 3 In case any of the Guarantor shall become insolvent or admit in writing his, her or its inability to pay his, her or its debts as they mature, or apply for, consent to or acquiesce in the appointment of a trustee, receiver, liquidator, assignee, sequestrator or other similar official for either Guarantor, or any of his, her or its property, or, in the absence of such application, consent or acquiescence, a trustee, receiver, liquidator, assignee, sequestrator or other similar official is appointed for Guarantor, or for a substantial part of his, her or its property and is not discharged within 60 days, or any bankruptcy, reorganization, debt arrangement or other proceeding under any bankruptcy, admiralty or insolvency law or at common law or in equity is instituted by or against Guarantor, or remains for 60 days undismissed, then if any such event shall occur at a time when any of the Obligation(s) may not be then due and payable, Guarantor will pay to the Secured Party forthwith the whole unpaid amount under the Documents and Documents plus any other sums due under the Documents and other Documents, irrespective of whether any demand shall have been made on Guarantor, Debtor or any Obligor by intervention in or initiation of judicial proceedings relative to Guarantor, his, her or its creditors or his, her or its property. The Secured Party may file and prove a claim or claims for the whole unpaid amount or any portion thereof and for any other sums due under the Documents and other Documents and file such other papers or documents as may be necessary or advisable in order to have such claim allowed in such judicial proceedings and to collect and receive any monies or other property payable or deliverable on any such claim, and to distribute the same, and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to the Secured Party

2 4 The benefits, remedies and rights provided or intended to be provided hereby for the Secured Party are in addition to and without prejudice to any rights, benefits, remedies or security to which the Secured Party might otherwise be entitled

2 5 Notwithstanding anything mentioned herein to the contrary, the Secured Party, from time to time, without notice to Guarantor, may take all or any of the following actions without in any manner affecting or impairing the liability of Guarantor hereunder

(i) Obtain a security interest in any property to secure any of the Obligation(s) hereunder,

(ii) Retain or obtain the primary or secondary liability of any party or parties, in addition to Guarantor, with respect to any of the Obligation(s),

(iii) Extend the time for payment of the Documents or any installment thereof for any period,

(iv) Release or compromise any liability of Guarantor hereunder or any liability of any nature of any other party or parties with respect to the Obligation(s),

(v) Resort to Guarantor for payment of any Obligation(s), whether or not the Secured Party shall proceed against any other party primarily or secondarily liable on any of the Obligation(s), or

(vi) Agree to any amendments, modification or alteration of the Documents and exercise its rights to consent to any action or non-action of Debtor which may violate the covenants and agreements contained in the Documents with or without consideration, on such terms and conditions as may be acceptable to it

2 6 Guarantor agrees that if at any time all or any part of any payment theretofore applied by the Secured Party to any of the Obligation(s) is or must be rescinded or returned by the Secured Party for any reason whatsoever (including, without limitation, the insolvency, bankruptcy or reorganization of Debtor) such Obligation(s), for purposes of this Guarantee, to the extent that such payment is or must be rescinded or returned, shall be deemed to have continued in existence, notwithstanding such application by the Secured Party, and this Guarantee shall continue to be effective or be reinstated, as the case may be, as to such Obligation(s), all as though such application by the Secured Party had not been made

ARTICLE III **GUARANTOR'S WARRANTIES**

3 1 Guarantor represents and warrants to the Secured Party that

(i) This Guarantee has been duly executed and delivered by the Guarantor and constitutes a legal, valid and binding obligation of Guarantor enforceable against him her or it in accordance with its terms,

(ii) There is no action, litigation or other proceeding pending or threatened against Guarantor, before any court, arbitrator or administrative agency which may have a materially adverse effect on the assets, businesses, or financial condition of Guarantor, or which would prevent, hinder or jeopardize his, her or its performance under this Guarantee,

(iii) Guarantor is fully familiar with all of the covenants, terms and conditions of the Documents and the Documents,

(iv) The Guarantor is not party to any contract, agreement, indenture or instrument or subject to any restriction which might materially adversely affect his, her or its financial condition which would in any way jeopardize the ability of Guarantor to perform hereunder, and

(v) The Financial Statement of Debtor attached hereto as Exhibit "1" is correct in all material respects and accurately represents the financial condition of Debtor as of _____, 20__

ARTICLE IV **MISCELLANEOUS PROVISIONS**

4 1 All the covenants, stipulations, promises and agreements contained in this Guarantee by or on behalf of Guarantor are for the benefit of the Secured Party, its successors or assigns and shall bind Guarantor and his, her or its heirs, executors, personal representative, successors and assigns

4 2 Any notice or demand which by any provision of this Guarantee is required or permitted to be given by Secured Party to Guarantor shall be deemed to have been sufficiently given for all purposes if given by first-class mail, postage prepaid, to Guarantor at the address set forth after his, her or its signature below (until another address is filed by Guarantor with Secured Party for such purposes)

4 3 The Secured Party, without notice of any kind, may sell, assign or transfer the Documents, and in such event each and every immediate and successive assignee or transferee thereof may be given the right by the Secured Party to enforce this Guarantee in full, by suit or otherwise, for its own benefit. Guarantor hereby agrees for the benefit of any such assignee or transferee that his, her or its Obligation(s) hereunder shall not be subject to any reduction, abatement, defense, set-off, counterclaim or recoupment for any reason whatsoever.

4 4 Guarantor hereby expressly waives

(i) Notice of the acceptance by the Secured Party of this Guarantee,

(ii) Notice of the existence, creation or non-payment of all or any of the Obligation(s),

(iii) Presentment, demand, notice or dishonor, protest and all other notices whatsoever, and

(iv) All diligence in collection or protection of or realization on the Obligation(s) or any thereof hereunder, or any security for or guarantee of any of the foregoing

4 5 No delay on the part of the Secured Party in the exercise of any right or remedy shall operate as a waiver thereof, and no single or partial exercise by the Secured Party of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy, nor shall any modification or waiver of any of the provisions of this Guarantee be binding on the Secured Party except as expressly set forth in writing, duly signed and delivered on behalf of the Secured Party.

4 6 This Guarantee shall in all respects be governed by and construed and enforced in accordance with the laws of the State of California and the parties hereto submit to the non-exclusive jurisdiction of the courts of Los Angeles County, California and all courts competent to hear appeals therefrom.

4 7 Any provision of this Guarantee that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and no such prohibition or unenforceability shall invalidate or render unenforceable such provision in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have executed this Guarantee as of the date first written above.

"SECURED PARTY"

FRANCHISOR

By _____

"GUARANTORS"

"SPOUSE"

Name
Address

Name
Address

Name
Address

[Attach Debtor's financial statements as Exhibit 1 to this Guarantee Agreement]

MACCHIATO GROUP, INC

FRANCHISE AGREEMENT

EXHIBIT "C"

CONDITIONAL LEASE ASSIGNMENT PROVISIONS

The clauses referred to in Article 2.1 of the attached Franchise Agreement are as follows

(i) The premises being leased hereunder shall be used solely for the operation of a Macchiato Cafe

(ii) Lessor has examined Franchisor's standard design concepts and specifications and consents to Lessee's use of same and of Franchisor's Marks and such signage as Franchisor may prescribe for the Cafe

(iii) Lessee may not sublease or assign all or any part of its occupancy rights, or extend the term or renew the lease, without Franchisor's prior written consent

(iv) Lessor shall furnish Franchisor a copy of the executed lease, including all attachments thereto and related agreements, if any, within five (5) days after its execution, and no change or amendment to such lease affecting the above terms and conditions shall be effective without Franchisor's prior written approval

(v) Notwithstanding anything to the contrary contained in this Lease, it is expressly understood and agreed that if the Franchise Agreement dated the ____ day of _____, 20__ between the Lessee and Franchisor expires or is terminated for any reason whatsoever, the Lessee's rights hereunder shall, at the option of Franchisor, be transferred and assigned to Franchisor. Said option may be exercised by Franchisor giving the Lessor a notice in writing within thirty (30) days following the expiration or termination of the said Franchise Agreement, such notice to specify, inter alia, the date of such expiration or termination. It is further agreed that such notice shall, without further act or formality, operate as an effective assignment of the Lessee's right hereunder to Franchisor and the assumption by Franchisor of the covenants herein required to be observed or performed by the Lessee

(vi) In the event Franchisor elects not to exercise the above option, Lessor shall permit Franchisor to enter the premises in order to make any modification necessary to protect Franchisor's Marks

(vii) The Lessor shall give written notice to Franchisor (concurrently with the giving of such notice to the Lessee) of any default by the Lessee under the Lease, and Franchisor shall have, after the expiration of the period during which the Lessee may cure such default, an additional fifteen (15) days to cure, at its sole option, any such default, providing that if such default arises by reason of the bankruptcy or insolvency of the Lessee or the appointment of a receiver over the Lessee's assets or part thereof, Franchisor shall have the right to assume this Lease upon payment of any arrears of rental to such date. In the event of any such assumption, the Lessee shall cease to have any further rights hereunder

(viii) The Lessor acknowledges that the said Franchise Agreement contains a right on the part of Franchisor, in the event of expiration or termination of the said Franchise Agreement for any reason whatsoever, to enter the premises hereby demised and to operate the Cafe for the

account of the Lessee for a period as set forth in the said Franchise Agreement. The Lessor further acknowledges that such entry by Franchisor shall not constitute an assignment of this Lease, nor a subletting of the premises hereby demised.

(ix) The Lessor acknowledges that Franchisor is executing this Lease solely for the purpose of acknowledging the provisions contained in the foregoing clauses and agrees that such execution by Franchisor shall in no way be construed so as to obligate Franchisor for the performance of any of the terms, conditions, obligations and covenants contained herein, except as specifically set forth in clause (i).

The foregoing provisions shall be incorporated into Franchisee's lease or sublease agreement.

FRANCHISOR

By _____

FRANCHISEE

By _____

MACCHIATO GROUP, INC

FRANCHISE AGREEMENT

EXHIBIT "D"

SITE LOCATION ADDENDUM

Site Location

Macchiato Group, Inc ("Franchisor") and Franchisee ("Franchisee") have on this date, _____, 20__, entered into a certain Franchise Agreement, ("Franchise Agreement") and desire to supplement its terms as set out below. The parties hereto therefore agree as follows:

A Site Selection

Within 1 year, (365) days after execution of this Addendum, Franchisee shall acquire, by lease or purchase, at Franchisee's expense and subject to Franchisor's approval, as provided in the Franchise Agreement, a location for the franchised business.

B Guidelines and Evaluation

In connection with Franchisee's selection of a site for the franchised business, Franchisor shall furnish to Franchisee the following:

1 Counseling and assistance on site selection guidelines as Franchisor may deem advisable.

2 Such on-site evaluation as Franchisor may deem advisable in response to Franchisee's request for site approval, provided, however, that Franchisor shall not provide on-site evaluation for any proposed site prior to the receipt of a market feasibility study for such site prepared by Franchisee pursuant to Paragraph C hereof. If on-site evaluation is deemed necessary and appropriate by Franchisor (on its own initiative or at Franchisee's request), Franchisee shall reimburse Franchisor for all reasonable expenses incurred by Franchisor in connection with such on-site evaluation, including, without limitation, the cost of travel, lodging and meals, following Franchisee's approval in advance of same.

C Site Approval

Prior to the acquisition by lease or purchase of any proposed location for the franchised business, Franchisee shall submit to Franchisor, in the form specified by Franchisor, a description of the proposed location and such other information or materials as Franchisor may reasonably require. Recognizing that time is of the essence, Franchisee agrees that it must submit such information and material for the proposed location to Franchisor for its approval no later than _____() days after the execution of the Franchise Agreement. Franchisor shall have _____() days after receipt of such information and materials from Franchisee to approve or disapprove, at its sole discretion, the proposed location as the location for the franchised business. The proposed location shall not be deemed approved unless written notice of approval is given to Franchisee by Franchisor.

D Lease Provisions

The lease for the premises of the franchised business shall be submitted to Franchisor for its written approval prior to execution by Franchisee and the Lessor, and shall contain the following terms and conditions

- 1 That the premises shall be used only for the operation of the franchised business
- 2 That the landlord has examined Franchisor's standard design concepts and consents to Franchisee's use of such Proprietary Marks and signage as Franchisor may prescribe for the franchised business
- 3 That the landlord agrees to furnish Franchisor with copies of any and all letters and notices sent to Franchisee pertaining to the lease and premises, at the same time that such letters and notices are sent to Franchisee
- 4 That Franchisee may not sublease or assign all or any part of its occupancy rights, or extend the term or renew the lease, without Franchisor's prior written consent
- 5 That Franchisor shall have the right to enter the premises to make any modification necessary to protect Franchisor's Proprietary Marks or to cure any default under the lease or under this Agreement
- 6 That Franchisor shall have the option to assume Franchisee's occupancy rights, and the right to assign or sublease for all or any part of the remaining term, upon Franchisee's default or termination under such lease or under this Agreement
- 7 That Franchisor shall be furnished a copy of the executed lease, ten (10) days after its execution, and no change or amendment to such lease affecting the above terms and conditions shall be effective without Franchisor's prior written approval

E Relocation

Upon Franchisor's approval of a location for the franchised business, or upon execution of this Agreement, whichever occurs earlier, the street address of the approved location of the franchised business shall be recorded and shall be attached as Exhibit "A" to this Agreement. Franchisee shall not relocate the franchised business without the express prior written consent of Franchisor.

F Construction

Franchisee shall commence construction or leasehold improvements ("Construction") of the franchise business within _____ () days after Franchisee executes this addendum, executes a lease, or obtains the right to possession of the premises, whichever occurs latest. Franchisee shall provide written notice to Franchisor of the date Construction of the franchised business commences within _____ () days after commencement. Franchisee shall maintain continuous Construction of the franchised business premises and shall complete Construction, including all exterior and interior carpentry, electrical, painting and finishing work, and installation of all furnishings, fixtures, equipment, and signs, in accordance with the approved plans and specifications at Franchisee's expense, within _____ () months after commencement (exclusive of the time lost by reason of strikes, lockouts, fire and other casualties and acts of God). Each week during the Construction period, Franchisee and Franchisee's architect or general contractor shall certify in writing to Franchisor that all work is proceeding substantially on schedule, and in accordance with the approved plans and specifications and all applicable laws, regulations and ordinances.

and restrictive covenants Franchisee further agrees that Franchisor and its agents shall have the right to inspect the Construction at all reasonable times

G Permits and Approvals

Before or upon completion of Construction, Franchisee shall obtain, and shall furnish to Franchisor copies of, all necessary permits, approvals, and certificates required for occupancy of the premises and operation of the franchised business Franchisee shall obtain Franchisor's approval for opening and shall open the franchised business within ____ () months after the date of commencement of Construction

H Time of Essence

Franchisee and Franchisor agree that time is of the essence in Franchisee's performance of its obligations hereunder Any failure by Franchisee to meet the time limits imposed under this Addendum shall constitute a default under Section 17.1 of the Franchise Agreement, for which Franchisor may terminate this Agreement upon notice to Franchisee

I Effect of Franchise Agreement

This Addendum shall be considered an integral part of the Franchise Agreement between the parties hereto, and the terms of this Addendum shall be controlling with respect to the subject matter hereof Except as modified or supplemented by this Addendum, the terms of the Franchise Agreement are hereby ratified and confirmed

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Addendum in triplicate on the day and year first above written

FRANCHISOR

FRANCHISEE

By _____

MACCHIATO GROUP, INC

FRANCHISE AGREEMENT

EXHIBIT "E"

CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

THIS AGREEMENT is made by and between Macchiato Group, Inc , a California corporation (the "Franchisor"), and _____ (the "Franchisee")

WHEREAS, Franchisor has developed an established business and is engaged in the development, marketing and sale to franchisees of an efficient and distinctive system of training employees, preparing, serving, merchandising, and selling products typically sold in a Macchiato Cafe, served by a distinctively uniformed staff, and well trained, in distinctively designed, furnished, decorated and equipped cafes under the name Macchiato, and

WHEREAS, Franchisor has developed and uses the name "Macchiato" and associated service marks, trademarks, designs, and symbols in the design and appearance of its cafes (collectively referred to as the "Marks"), identifying the goodwill which Franchisor has developed in connection with the operation of Macchiato Cafes by Franchisor and its franchisees (all of which is hereinafter referred to as the "System"), and

WHEREAS, Franchisor desires to preserve the Marks and the System, and has plans, where profitable, to increase the number of Macchiato Cafes within the United States and elsewhere, and

WHEREAS, Franchisee desires to be a Macchiato Cafe franchisee, and

WHEREAS, _____, Franchisee's Employee, has been hired by Franchisee to run the day-to-day activities of Franchisee's store and such Employee must therefore be bound by the same confidentiality and non-competition agreement that Franchisee is bound by

IN CONSIDERATION of these premises, and the conditions stated herein, the parties agree as follows

1 Purpose of Agreement Franchisor is placing Franchisee in a position of trust and confidence in the development, marketing, sale and expansion of the System. As a precondition of the grant of the right to own and operate a Macchiato Cafe, Franchisor desires to receive from Franchisee (i) an agreement not to disclose certain information relating to Franchisor's business, (ii) an agreement not to compete against Franchisor for a certain period of time, and (iii) an agreement concerning the ownership of certain information. This Agreement sets forth the terms of their agreements and understandings.

2 Franchisor Ownership of Materials All information, ideas, research, methods, techniques, specifications, guidelines, secret recipes, manuals, procedures, systems, improvements, notes, data, tapes, reference items, financial information, literature, files, supplier lists, notebooks, calendars, sketches, drawings, memoranda, records and copyrighted and other materials, including Franchisor's Confidential Operating Manual, and the goodwill associated with them, which in any way relate to Franchisor's past, present or potential business or which were prepared or received by Franchisee as a franchisee of Franchisor and a participant in the System (collectively referred to as "Confidential Information") are the exclusive property of Franchisor. Franchisee agrees to deliver to Franchisor all

copies of such materials including Franchisee's own personal work papers, which are in Franchisee's possession or under Franchisee's potential control at the request of Franchisor or, in the absence of such a request, upon the termination of that certain Franchise Agreement dated even date herewith between Franchisor and Franchisee (the "Franchise Agreement")

3 Confidential Information Franchisee acknowledges that Franchisor's Confidential Information is a valuable and unique asset which Franchisee holds in trust for Franchisor's sole benefit. Franchisee agrees that Franchisee shall not, at any time during and for a period of fifty (50) years after Franchisee ceases to be a franchisee of Franchisor or a participant in the System, use for itself or for others, or disclose to any person, corporation or other entity for any reason, any of Franchisor's Confidential Information, without the prior written consent of Franchisor.

4 Trade Secrets Franchisee acknowledges that Franchisor's Confidential Information and its methods and techniques of operation, and food preparation, merchandising, recipes, specifications, its financial condition, customer service, marketing and pricing strategies, as well as the information compiled and developed regarding improvements or enhancements to the System, including the Confidential Operating Manual, are uniquely valuable to Franchisor and have been developed through considerable expense and effort, and thus are not usually ascertainable by a competitor without considerable investment of effort and expense ("Trade Secrets").

In light of the need to protect and preserve the confidentiality of these Trade Secrets and in consideration of Franchisee's continued right to own and operate a Macchiato Cafe, Franchisee agrees, at all times while a franchisee of Franchisor and for as long as Franchisor remains in business anywhere in the world, to respect the confidentiality of Franchisor's Trade Secrets, to use them solely for the benefit of Franchisor's business, and to refrain from disclosing or making available the Trade Secrets to any third party without the prior written consent of Franchisor. Franchisee further agrees to take all reasonable security measures to ensure that Franchisee's employees comply with this Agreement and such other security measures as are reasonably requested by Franchisor to prevent accidental disclosure.

5 Assignment of Inventions All ideas, improvements, processes, names, menu items, and enhancements to the System or which relate to or are useful to Franchisor's business which Franchisee, alone or with others, may invent, discover, make or conceive ("Inventions") are the exclusive property of Franchisor, and Franchisee shall promptly and fully disclose them to Franchisor. At any time, at Franchisor's request and expense, Franchisee shall, without further compensation (i) promptly record such Inventions with Franchisor, (ii) execute any assignments and other documents Franchisor deems desirable to protect its rights in the Inventions, and (iii) assist Franchisor in enforcing its rights with respect to these Inventions.

6 Restrictions on Unfair Competition It is recognized by Franchisee that as the natural result of Franchisee's participation in the System as a franchisee of Franchisor, Franchisee will gain access to Franchisor's Trade Secrets and Confidential Information, and will gain the trust, confidence and respect of Franchisor's landlords, customers and suppliers. Franchisee acknowledges that Franchisor has a legitimate need to protect itself against unfair competition by its franchisees and their employees. Therefore, in consideration for Franchisee's participation in the System as a franchisee of Franchisor, Franchisee agrees that while it is a franchisee of Franchisor and for two (2) years after termination of the Franchise Agreement, regardless of the circumstances giving rise to the termination, or after Franchisee ceases to be a participant in the System, and within the Area of Minimum Competition as defined in Article XIV of the Franchise Agreement, Franchisee shall not

(a) Have or acquire an interest in a similar business to that offered or developed by Franchisor which provides the same or substantially similar products as those sold, distributed, manufactured or furnished by Franchisor during the term of the Franchise Agreement. For purposes of

this Agreement, "similar business" means a retail food service cafe or restaurant that sells the same or substantially similar products as Menu Items, as such term is defined in the Franchise Agreement, where the cumulative sales of such products comprise at least 50% of total sales of such business,

(b) Engage, directly or indirectly, on Franchisee's own behalf, or on behalf of any other person, firm, partnership or corporation, in providing, assisting, instructing or supervising the marketing, distribution or sale of the Products of any similar business to those offered and provided or manufactured by Franchisor as of the termination of this Agreement,

(c) Compete, directly or indirectly, with Franchisor in the offering, distribution or sale of products similar to the Products offered or provided or manufactured by Franchisor as of the termination of this Agreement. Prohibited competition under this subsection (c) may include, but is not limited to, the solicitation of, attempted solicitation, or other contacts with franchisees, landlords, suppliers and customers of Franchisor for the purpose of offering, providing or delivering Products or services similar to those offered and provided by Franchisor to the public, or the request, suggestion or advice to Franchisees, landlords, suppliers or customers, either directly or indirectly, to withdraw, curtail, limit or cancel their business with Franchisor, or to disclose, directly or indirectly, to any other person the names and addresses of franchisees, landlords, suppliers and customers of Franchisor, or the terms and conditions of Franchisor's contracts with suppliers of these Products

(d) Hire or engage, or attempt to hire or engage, directly or indirectly, any individual who is an employee of Franchisor at the time of such solicitation, or was an employee during the calendar year immediately preceding Franchisee's termination as a participant in the System as a franchisee of Franchisor, whether such actions are undertaken on behalf of Franchisee or on behalf of another entity, or

(e) Otherwise take direct actions to disrupt the operations of Franchisor or interfere with Franchisor's performance of its contracts with third parties

7 Enforcement

(a) Injunction Franchisee understands and agrees that Franchisor will suffer irreparable harm if Franchisee breaches any of Franchisee's obligations under this Agreement, and that monetary damages shall be inadequate to compensate Franchisor for any such violation. Accordingly, Franchisee agrees that in the event Franchisee violates or threatens to violate any of the provisions of this Agreement, Franchisor, in addition to all other remedies or damages which it may have, shall be entitled to seek an injunction to prevent or to restrain any such violation by Franchisee or by any or all of Franchisee's directors, stockholders, officers, partners, employees, agents or any other person directly or indirectly acting for, on behalf of or with Franchisee. Franchisee consents to the seeking of the injunction as being a reasonable measure to protect Franchisor's rights

(b) Jurisdiction Franchisee agrees that any lawsuit brought by Franchisor to enforce its rights under this Agreement shall be brought in the appropriate court located in the state where Franchisee's Cafe is located, and the parties agree and consent to the jurisdiction of such court to resolve all disputes which arise out of this Agreement or any alleged breach thereof in a state court. Any lawsuit brought against Franchisor or its officers, directors or agents arising out of this Agreement, or any alleged breach thereof, must be brought within one (1) year of the event giving rise to the cause of action. The failure to commence such action by or on behalf of Franchisee within this time period shall serve to bar any rights Franchisee may have against Franchisor or its officers, directors and agents

(c) Costs Franchisee further agrees that if Franchisee acts in any manner which causes Franchisor to seek any form of judicial relief or remedy against Franchisee, and the court determines Franchisee has or is violating any of the provisions of this Agreement, Franchisor, in addition

to its other remedies, shall be entitled to recover from Franchisee all costs incurred, including its attorneys' fees

8 Reasonableness of Restrictions, Severability Franchisee has read and considered carefully the provisions of Sections 1 through 7 of this Agreement, and agrees that the restrictions are fair and reasonably required for the protection of the interests of Franchisor, its business and its officers, directors and employees, even though no geographic limitation is included because of the national nature of the franchise business. Franchisee further agrees that the restrictions set forth in this Agreement shall not impair Franchisee's ability to secure employment or acquire an interest in a business in another field of choice, other than the restricted field described in Section 6

9 Miscellaneous

(a) All agreements and covenants contained herein are severable. If any of them, or any part or parts of them, shall be held invalid by any court of competent jurisdiction for any reason, then Franchisee agrees that the court shall have the authority to reform and modify that provision in order that the restriction shall be the maximum necessary to protect Franchisor's legitimate business needs as permitted by applicable law and public policy. In so doing, Franchisee agrees that the court shall impose the provision with retroactive effect as close as possible to the provision held to be invalid. Further, Franchisee agrees that a breach or alleged breach by Franchisor of any obligation owed by Franchisor shall not affect the validity or enforceability of the provisions of this Agreement.

(b) This Agreement was entered into and shall be governed by the laws of the State of California.

(c) No delay or failure by Franchisor to exercise any right under this Agreement, and no partial or single exercise of that right, shall constitute a waiver of that or any other right provided herein, and no waiver of any violation of any terms and provisions of this Agreement shall be construed as a waiver of any succeeding violation of the same or any other provision of this Agreement.

(d) In the event that any provision of this Agreement, or a portion thereof, shall be held to be invalid or unenforceable, this ruling shall not affect in any manner the validity of the remaining provisions.

(e) The rights and obligations of Franchisor under this Agreement shall inure to the benefit of and shall be binding upon the parties hereto, as well as the affiliates of Franchisor and any future successors and assigns of Franchisor.

(f) No modification of this Agreement shall be valid unless it is in writing and signed by both Franchisee and an authorized representative of Franchisor. This Agreement contains the entire agreement between the parties and is expressly intended by Franchisee and Franchisor to supersede and replace any prior agreements on these issues between the parties.

(g) The Employee, if any, hereby executes this Agreement to evidence his/her or their consent to be bound by each and every provision.

[Remainder of page intentionally left blank, signature page to follow]

IN WITNESS WHEREOF, Franchisor and Franchisee attest that each has read and understands the terms of this Agreement, and voluntarily signed this Agreement on this ____ day of _____, 20__

FRANCHISOR

By _____

FRANCHISEE

By _____
(Franchisee)

By _____
(Employee)

MACCHIATO GROUP, INC

FRANCHISE AGREEMENT

EXHIBIT "F"

TRANSFER OF FRANCHISE TO A CORPORATION

The undersigned, as Franchisee of the Cafe under a Franchise Agreement executed on the date set forth below between Franchisee and Macchiato Group, Inc , as Franchisor, granting Franchisee a franchise to operate at the location set forth below, and the other undersigned shareholders or members of the Corporation, who together with Franchisee constitute all of the Shareholders of the Corporation, in order to induce Franchisor to consent to the assignment of the Franchise Agreement to the Corporation in accordance with the provisions of Article XX of the Franchise Agreement, agree as follows

1 The undersigned Franchisee shall remain personally liable in all respects under the Franchise Agreement and all the other Shareholders of the Corporation intending to be legally bound hereby, agree jointly and severally to be personally bound by the provisions of the Franchise Agreement including the restrictive covenants contained in Article XIV thereof, to the same extent as if each of them were Franchisee set forth in the Franchise Agreement and they jointly and severally personally guarantee all of Franchisee's obligations set forth in said Agreement

2 The undersigned agree not to transfer any stock in the Corporation without the prior written approval of Franchisor and agree that all stock certificates representing shares in the Corporation shall bear the following legend

"The shares of stock represented by this certificate are subject to the terms and conditions set forth in a Franchise Agreement dated _____, 20__ between Franchisee and Macchiato Group, Inc "

3 Franchisee or his designee shall devote his best efforts to the day-to-day operation and development of the Cafe

4 _____ hereby agrees to become a party to and to be bound by all of the provisions of the Franchise Agreement executed on the date set forth below between Franchisee and Macchiato Group, Inc to the same extent as if it were named as Franchisee herein

Date of Franchise Agreement _____

Location of Cafe _____

Name of Corporation

Name

Title

In consideration of the execution of the above Agreement, Macchiato Group, Inc hereby consents to the above referred to assignment on this ____day of, 20__

MACCHIATO GROUP, INC

By _____

MACCHIATO GROUP, INC

FRANCHISE AGREEMENT

EXHIBIT "G"

**WEBSITE LISTING, TELEPHONE NUMBER ASSIGNMENT AGREEMENT
AND POWER OF ATTORNEY**

FOR VALUE RECEIVED, the undersigned ("Franchisee") irrevocably assigns the telephone listing and numbers stated below and any successor, changed or replacement number or numbers effective upon the date of termination of the Franchise Agreement described below to Macchiato Group, Inc upon the following terms

1 This assignment is made under the terms of Macchiato Cafe Franchise Agreement dated _____, 20__ authorizing Franchisee to do business as "Macchiato" or "Macchiato" Cafe (the "Franchise Agreement") between Franchisor and Franchisee, which in part pertains to the telephone and listing and numbers Franchisee uses in the operation of the Cafe covered by the Franchise Agreement

2 Franchisee retains the limited right to use the website listing, telephone numbers and business listings (collectively, the "Listings") only for transactions and advertising under the Franchise Agreement while the Franchise Agreement between Franchisor and Franchisee remains in full force, but upon termination or expiration of the Franchise Agreement, Franchisee's limited right of use of the Listings also terminates. In this event, Franchisee agrees to immediately discontinue use of all Listings. At Franchisor's request, Franchisee will immediately sign all documents, pay all monies, and take all other actions necessary to transfer the Listings to Franchisor

3 The Listings subject to this assignment are _____ (to be determined) and all numbers on the rotary series and all numbers Franchisee uses in the Cafe in the future

4 Franchisee shall pay all amounts owed for the use of the Listings it incurs. On termination or expiration of the Franchise Agreement, Franchisee shall immediately pay all amounts owed for the Listings, whether or not due, including all sums owed under existing contracts for telephone and online business directory advertising

5 Franchisee appoints Franchisor as his/her attorney-in-fact to act in Franchisee's place for the purpose of assigning any Listings covered by Paragraph 3 above to Franchisor or Franchisor's designees or transferees. Franchisee grants Franchisor full authority to act in any manner proper or necessary to exercise these powers, including full power of substitution and signing or completion of all documents required or requested by any directory or listings service company to transfer the numbers, and ratifies every act that Franchisor lawfully performs in exercising those powers

This power of attorney is effective for ten (10) years from the date of expiration, cancellation or termination of Franchisee's rights under the Franchise Agreement for any reason

Franchisee intends that this power of attorney be coupled with an interest. Franchisee declares this power of attorney to be irrevocable and renounces all right to revoke it or to appoint another person to perform the acts referred to in this instrument. This power of attorney is not affected by Franchisee's later incapacity. This power is created to secure performance of a duty to Franchisor and is for consideration

THE PARTIES have caused this Agreement to be duly signed as evidenced by their signatures appearing below Persons signing this Agreement must check the appropriate space and sign in the appropriate place provided

FRANCHISEE EACH OF THE BELOW PERSONS AGREES TO BE BOUND BY THE PROVISIONS OF THIS AGREEMENT, IN BOTH INDIVIDUAL AND REPRESENTATIVE CAPACITIES

Signed the ____ day of _____, 20__

Franchisee

By _____

FRANCHISOR

Signed and accepted as of the ____ day of _____, 20__

MACCHIATO GROUP, INC

By _____

MACCHIATO GROUP, INC

FRANCHISE AGREEMENT

EXHIBIT "H"

**AUTHORIZATION TO HONOR CHARGES DRAWN BY AND PAYABLE TO
MACCHIATO GROUP, INC , INCLUDING CHECKS AND ELECTRONIC TRANSFERS**

Depositor hereby authorizes and requests _____ (the ' Bank) to initiate debit and credit entries to Depositor s account indicated below drawn by and payable to the order of MACCHIATO GROUP, INC (the "Company") in checks drawn on such account payable to the Company or by Electronic Funds Transfer, provided there are sufficient funds in said account to pay the amount upon presentation

Depositor agrees that the Bank's rights with respect to each such charge shall be the same as if it were a check drawn by the Bank and signed by Depositor Depositor further agrees that if any such charge is dishonored whether with or without cause and whether intentionally or inadvertently the Bank shall be under no liability whatsoever

Bank Name _____

Bank Address _____

Transit/ABA Number _____

Account Number _____

This authority is to remain in full force and effect until the Company has received written notification from the depositor of its termination in such time and in such manner to afford the Company and Bank a responsible opportunity to act on such request

Cafe Address _____

Name of Depositor _____ (Please print Franchisee name)

Date Signed

Signature of Depositor

Signature of Depositor (in case more than 1 depositor)

**PLEASE ATTACH ONE VOIDED BLANK CHECK FOR PURPOSES OF SETTING UP BANK AND
TRANSIT NUMBERS**

MACCHIATO GROUP, INC

FRANCHISE AGREEMENT

EXHIBIT "I"

ENTITY INFORMATION DISCLOSURE

Franchisee represents and warrants that the following information is accurate and complete in all respects

1 Franchisee is a (check as applicable)

- ☐ corporation
☐ limited liability company
☐ general partnership
☐ limited partnership
☐ other (specify) _____

State of incorporation/organization _____

Franchisee entity name _____

Federal Tax Identification Number _____

2 Franchisee shall provide to Franchisor concurrently with the execution of this Agreement true and accurate copies of its charter documents including Articles of Incorporation/Organization, Bylaws, Operating Agreement, Partnership Agreement, resolutions authorizing the execution of this Agreement and any amendments to the foregoing (the "Entity Documents")

3 Franchisee promptly shall provide all additional information that Franchisor may from time to time request concerning all persons who may have any, direct or indirect, financial interest in Franchisee

4 The name and address of each Owner is

Name	Address	Number of Shares or Percentage Interest
_____	_____	_____
_____	_____	_____

5 The names, addresses, and titles of Franchisee Owner who will be devoting their full time to the Franchised Cafe are

Name	Address	Title
_____	_____	_____
_____	_____	_____

6 The address where Franchisee's financial records and Entity Documents are maintained is

7 The General Manager is _____

8 Franchisee represents and warrants to Franchisor as an inducement to Franchisor's execution of the Franchise Agreement that the information set forth in this Entity Information Disclosure is true, accurate and complete in all material respects on the Effective Date and that Franchisee shall provide Franchisor with all additional information Franchisor may request with respect to the partners shareholders and members of Franchisee and the ownership of Franchisee upon demand by Franchisor In addition Franchisee shall notify Franchisor within ten (10) days of any change in the information set forth in this Entity Information Disclosure and shall provide Franchisor with a revised Entity Information Disclosure certified by Franchisee to be true, correct and complete in all material respects Franchisor grants Franchisee the rights in the Franchise Agreement in reliance upon each and all of the terms of this Entity Information Disclosure

IN WITNESS WHEREOF, Franchisor and Franchisee attest that each has read and understands the terms of this Agreement, and voluntarily signed this Agreement on the Effective Date

FRANCHISOR

By _____

FRANCHISEE

By _____

EXHIBIT D

TABLE OF CONTENTS FOR CONFIDENTIAL OPERATING MANUAL

MACCHIATO CAFE

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5 Construction and Interior Decor	60
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EXHIBIT E

LIST OF CURRENT FRANCHISEES

NONE

EXHIBIT F

LIST OF FRANCHISEES WHO HAVE LEFT THE SYSTEM

NONE

EXHIBIT G

FINANCIAL INFORMATION

Jong Jin Lee CPA Office

6281 Beach Blvd Ste 102, Buena Park, CA 90621

(714) 855-1120

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
MACCHIATO GROUP, INC

We have audited the accompanying financial statements of MACCHIATO GROUP, INC which comprise the balance sheet as of July 31, 2018, and the related statements of income, retained earnings and cash flows for the period then ended, and the related notes to the financial statements

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Jong Jin Lee CPA Office

6281 Beach Blvd Ste 102, Buena Park, CA 90621

(714) 855 1120

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MACCHIATO GROUP, INC , as of July 31, 2018, and the result of its operation and its cash flow for the period then ended, in accordance with accounting principles generally accepted in the United States of America

A handwritten signature in black ink, appearing to read 'Sang Jang', written in a cursive style.

Sang Jang
Certified Public Accountant

September 30, 2018

MACCHIATO GROUP, INC.

Financial Statements

As of and for the Period Ended July 31, 2018

MACCHIATO GROUP, INC.

Balance Sheet July 31, 2018

Assets

Cash and cash equivalents	4 474 94
Total current assets	4,474 94
Other assets	
Start up costs	14,451 60
Other Assets	800 00
Total other assets	15,251 60
Total assets	19,726 54

Liabilities and Stockholders' Equity

Stockholders' Equity

Common stock	19 726 54
Total stockholders' equity	19,726 54

Total liabilities and stockholders' equity	19,726 54
---	------------------

MACCHIATO GROUP, INC.

Statement of Income Period ended July 31, 2018

Revenues

Sales net

Total revenues

-

Cost of goods sold

Operating expenses

General and administrative expense

-

Total operating expense

-

Income from operations

-

Net Income

MACCHIATO GROUP, INC.

Statement of Cash Flows Period ended July 31, 2018

Cash flows from operating activities

Cash flows from investing activities

Cash flows from financing activities

Increase in capital stock	\$ 100,000
Net cash provided by financing activities	<u>\$ 100,000</u>
Net changes in cash and cash equivalents	<u>\$ 100,000</u>
Cash and cash equivalents, beginning of period	\$
Cash and cash equivalents, end of period	<u>\$ 100,000</u>

MACCHIATO GROUP, INC.

Note to Financial Statements

1 Organization and Operations

Basis of Financial Statement Presentation

The accompanying financial statements include those of MACCHIATO GROUP, INC. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America

Business Description

MACCHIATO GROUP, INC. was incorporated on September 22, 2017 under the laws of the State of California. MACCHIATO GROUP, INC.'s principal business is to sell franchises for a coffee, tea and dessert cafe operating, as well as other related products and services, located at locations approved by us, such as in strip shopping centers, shopping malls, and free-standing units.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates include, among other things, determining the depreciable lives of property and equipment, as well as valuation allowances of accounts receivable, if any. Actual results may differ from those estimates, and the differences may be material to the consolidated financial statements.

2 Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and money market accounts.

Property and equipment, Net

Property and equipment are stated at cost less accumulated depreciation. Depreciation has been calculated using the straight-line method over the estimated useful lives of the assets. Major improvements and replacements of property and equipment are capitalized. Minor additions and expenditures for

MACCHIATO GROUP, INC.

maintenance and repairs are charged against operations in the period incurred. Upon retirement or other disposition of property, applicable cost and accumulated depreciation and amortization are removed from the accounts and any gains and losses are included in the reporting of operations.

Estimated useful lives of assets are as follows:

	Years
Leasehold Improvements	15
Furniture and equipment	7
Automobiles	5

Revenue Recognition

Substantially all revenues are generated from service fees charged to customers. Revenue is recognized when the sales are done.

Income Taxes

The company uses the assets and liability method to account for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are provided if, based upon the weight of available evidence, management believes it is more likely than not that some or all of the deferred tax assets will not be realized.

The company also follows accounting guidance for uncertainty in income taxes which establishes that a tax position taken or expected to be taken in a tax return is to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. The amount recognized is subject to estimation and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

MACCHIATO GROUP, INC.

Contingencies

Accounting guidance requires that the Company record an estimated loss from a loss contingency when information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liabilities has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal matters requires significant judgment. Many of these legal matters can take years to resolve. Generally, as the time period increases over which the uncertainties are resolved, the likelihood of changes to the estimate of the ultimate outcome increases.

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Jong Jin Lee CPA Office

6281 Beach Blvd Ste 102, Buena Park, CA 90621

(714) 855-1120

CONSENT

Jong Jin Lee CPA Office consents to the use in the Franchise Disclosure Document issued by Macchiato Group, Inc ("Franchisor") on October 18, 2018 as it may be amended, of our report dated September 30, 2018 relating to the financial statements of Franchisor for the period ending July 31, 2018



Jong Jin Lee, CPA

RECEIPT

(RETURN ONE COPY TO US)

THIS DISCLOSURE DOCUMENT SUMMARIZES CERTAIN PROVISIONS OF THE FRANCHISE AGREEMENT, THE AREA DEVELOPMENT AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE READ THIS DISCLOSURE DOCUMENT AND ALL AGREEMENTS CAREFULLY

IF MACCHIATO GROUP, INC OFFERS YOU A FRANCHISE, IT 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

IF MACCHIATO GROUP, INC DOES NOT DELIVER THIS DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D C 20580 AND THE STATE ADMINISTRATORS LISTED IN EXHIBIT A

The sellers of Macchiato Cafe franchise are

MACCHIATO GROUP, INC
President Jason Tsai
15838 Halliburton Road
Hacienda Heights, CA 91745
(626) 872-1351

Date of Issuance October 18, 2018

I have received a disclosure document dated _____ that included the following Exhibits

- A State Administrators/Agents for Service of Process
- B State Specific Addendum
- C Franchise Agreement
- D Table of Contents of Confidential Operating Manual
- E List of Franchisees
- F List of Franchisees Who Have Left the System
- G Financial Statements

Dated _____

Franchisee _____

RECEIPT

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- G Financial Statements

Dated _____

Franchisee _____