

# FRANCHISE DISCLOSURE DOCUMENT



Painted Dough Franchise, LLC  
a California Limited Liability Company  
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The franchises described in this disclosure document are for the development and operation of **PAINTED DOUGH™** Stores offering specialty donuts, mochi donuts, vegan donuts, breakfast burritos, sandwiches, other related food and beverage products including cold brew coffees and crafted teas, as well as ancillary merchandise. The total investment necessary to begin operation of each franchised Store is \$361,000 to \$812,000. This includes \$35,000 that must be paid to the franchisor for the Initial Franchise Fee and opening assistance fee.

If You are an Area Developer, You are required to pay the franchisor a nonrefundable Development Fee equal to the Initial Franchise Fee for the first Required Store plus \$10,000 for each additional Required Store. The total estimated investment necessary to begin operation of the first Required Store is \$371,000 to \$852,000. This includes the \$45,000 to \$75,000 payable to the franchisor for the Development Fees and opening assistance fee.

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 government 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 disclosure in different formats, contact Danny Truong, at the above address and telephone number.

The terms of your contract will govern your franchise relationship. Do not rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or 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](http://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.

Issuance Date: January 19, 2024

## How to Use This Franchise Disclosure Document

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

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

## **What You Need To Know About Franchising Generally**

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

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

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

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

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

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

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

### **Some States Require Registration**

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

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

## Special Risks to Consider About This Franchise

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

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by arbitration and/or litigation only in the state in which our principal place of business is located (currently San Bernardino County, California). Out-of-state arbitration or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in the state in which our principal place of business is located (currently San Bernardino County, California) than your own state.
2. **Personal Liability.** Franchisees must sign a personal guarantee, making you and your spouse individually liability 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, perhaps including your house, if your franchise fails.
3. **Short Operating History.** The franchisor is at an early stage of development and has a limited operating history. This franchise is likely to be a riskier investment than a franchisor in a system with a longer operating history.
4. **Trademark Registration.** We do not have a federal registration for our principal trademark at this time. Therefore, our trademark does not have as many legal benefits and rights as a federally registered trademark. If our right to use the trademark is challenged, you may have to change to an alternative trademark, which may increase your expenses.

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

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### EXHIBITS:

- A. Franchise Agreement with Exhibits
- B. Area Development Agreement
- C. Confidentiality Agreement
- D. State Agents and State Administrators
- E. State Addenda
- F. Financial Statements
- G. Receipts

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

To simplify the language in this disclosure document, the words "**We**", "**Us**", or "**Our**" mean the franchisor Painted Dough Franchise, LLC. "**You**" or "**Your**" means the person who buys the franchise and includes Your owners if You are a corporation, limited liability company, partnership, or other business entity. Boldface terms are for ease of reference only.

### **The Franchisor**

We are a California corporation formed on April 7, 2023 to franchise and administer businesses using the trademark PAINTED DOUGH™ and other trademarks ("**Stores**"). Our principal business address is 5702 Riverside Drive, Chino, California, 91710. We do not do business under any other name and do not conduct any business activities other than in connection with the Stores nor have previously offered franchises in this or any other line of business. We do not currently operate any Stores. We have offered franchises since February 1, 2024. Our agents for service of process are listed on **Exhibit D**.

Our affiliate, Painted Dough, Inc. is a California corporation which was formed on March 27, 2017 ("**Company**") and its principal business address is 5702 Riverside Drive, Chino, California, 91710. The first PAINTED DOUGH Store was established by Our founder in January 2016 and is operated by Company ("**Company Store**"). This Company Store is similar to the franchise being offered to You. Company also owns Our trademarks and sells proprietary items to Franchisees. Company has not offered franchises in this or any other line of business.

### **Description of the Franchise**

We offer franchises for the operation of Stores which specialize in the sale of specialty donuts, mochi donuts, vegan donuts, breakfast burritos, sandwiches, other related food and beverage products including cold brew coffees and crafted teas, as well as ancillary merchandise. Menu items are prepared according to specified recipes and procedures and use high-quality ingredients. The Stores will use the PAINTED DOUGH trademark and other designated trademarks, trade names, service marks and logos ("**Marks**").

Each Store must follow a system (the "**System**") developed by Our founder, Danny Truong. The System includes valuable knowhow, trade secrets, distinctive interior designs, demarks, copyrights, proprietary products and software, confidential electronic and other communications, marketing programs and other business procedures as well as Our confidential Operating Manual (the "**Manual**"). Each Store will use Our System and operate according to Our standards, specifications, operating procedures, and rules (the "**System Standards**").

Stores typically range in size from 1,800 to 2,500 square feet and located on busy streets in area regional shopping centers. The Stores have a unique ambience, identified exclusively with PAINTED DOUGH, and every detail of the décor has been well planned to enhance the dining experience. Each Store emphasizes a clean and brightly colored atmosphere with well-trained, efficient and extremely personable managers and staff. Each Store is typically open from 6:00 a.m. to 6:00 p.m. every day except designated holidays.

### **Franchise Agreements**

You must be approved both operationally and financially before opening each new Store. The first step is to submit a Franchise Application and Questionnaire for Us to review and consider for approval. If We approve Your Franchise Application, You will execute a Franchise Agreement (**Exhibit A**). You will pay Us the Initial Franchise Fee in full when the Franchise Agreement is executed, which will be prior to site approval, training and before opening Your Store.

There are no refunds of any part of the Initial Franchise Fee including any deposits. The initial term of each Franchise Agreement is 10 years and is renewable for two additional five-year terms, subject to certain conditions. See "Renewal" discussed below in ITEM 17.

### **Area Development Agreements**

We may offer to qualified multiple unit developers ("Developers") an Area Development Agreement ("**ADA**") for the opening and operation a minimum of 3 franchised Stores, and preferably 5 or more franchised Stores within a designated area ("**Development Territory**") pursuant to a mutually agreed upon Development Schedule. See **Exhibit B**.

The ADA grants the exclusive right and obligation to develop a minimum number of Stores within the Development Territory during a certain time period (the "**Required Stores**"). A Developer must pay Us a nonrefundable Development Fee. The primary purpose of the Development Fee is to pay Us for reserving the designated territory. You must execute Our then-current form of the Franchise Agreement for each Required Store. See ITEM 5 for initial fees.

### **Competition**

The food service business is highly competitive. You will compete with a variety of food service establishments which may have financial, personnel, and technical resources far greater than Us or You, including midscale casual dining restaurant chains and fast-food chains. You will compete for business in this highly competitive environment and understand that there is no guarantee of Your success. You will offer products and services to the general public and individual consumers, for on-site consumption and carry out.

## **Industry Regulation**

Laws exist in every state that govern the food-service industry including health, sanitation, and safety regulations regarding food storage, preparation and safety and the sale of alcoholic beverages. You must comply with all local, state, and federal laws that apply to your Store's operation, including health, sanitation, EEOC, OSHA, discrimination, employment, and sexual harassment laws. The Americans with Disability Act requires readily accessible accommodation for disabled persons and therefore may affect your building construction. You must obtain real estate permits (such as zoning permits), real estate licenses and operational licenses. You also must comply with all PCI Data Security Standards. There are also regulations that pertain to sanitation, labeling, food preparation, food handling, and food service. You will be required to comply with all applicable federal, state, and local laws and regulations during the operation of Your Store. You should investigate with your state and local agencies, the applicability of these and possibly other regulations in the area in which you are interested in locating Your Store and should consider both their effect and cost of compliance.

## **ITEM 2. BUSINESS EXPERIENCE**

The business experience of Our officers, directors and key management for the last five years is as follows:

### **Danny Truong: Founder, CEO and LLC Manager**

Danny Truong is Our founder. He has been Our CEO and LLC Manager since April 2023. Mr. Truong opened the first Painted Dough Store located in Chino, CA in January 2016. He has been the CEO of Painted Dough, Inc. since March 2017.

## **ITEM 3. LITIGATION**

No litigation is required to be disclosed in this ITEM.

## **ITEM 4. BANKRUPTCY**

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

## **ITEM 5. INITIAL FEES**

### **Initial Franchise Fee**

The Initial Franchise Fee for each new franchise Store is \$30,000 as payment for services rendered prior to the opening of the Store. You will pay Us the Initial Franchise Fee when You sign the Franchise Agreement.

We offer a veteran initiative program. Under this program, honorably discharged veterans of the United States armed forces are entitled to receive a \$5,000 discount on the Initial Franchise Fee for each new franchise Store.

There are no refunds of any part of the deposit or the Initial Franchise Fee. All such fees payable to Us are intended to be “net” amounts and You must pay or reimburse Us for any sales, services, use or similar taxes which may be imposed upon any such fees.

### **Area Development Agreement**

We are also offering franchises to qualified Developers who will develop and operate at least three (3) or more Stores under an Area Development Agreement.

Developers must pay Us a nonrefundable Development Fee equal to the Initial Franchise Fee for the first Required Store plus \$10,000 for each additional Required Store (as specified in the development schedule) to hold the protected territory. As You develop each Required Store, You will execute Our then current Franchise Agreement which may have materially different terms from the form attached as Exhibit A.

The Initial Franchise Fee for the first Required Store is \$30,000. For the second and subsequent Required Stores, You will pay Us \$30,000 for the Initial Franchise Fee, less \$10,000 credit from the Development Fee for that Store. There is no refund of the Development Fee, even if You do not open the Required Store(s).

### **Opening Assistance Training Fee**

The Opening Assistance Training Fee for each new franchise Store is \$5,000 and is payable when the Franchise Agreement is executed. We may in Our sole discretion determine Opening Assistance Training unnecessary and not require the onsite training. There are no refunds of any part of the Opening Assistance Fee, which must be paid in full upon execution of the Franchise Agreement. Typically, the Opening Assistance Training will have a duration of 2 weeks and starts one (1) week prior to Your Store’s opening.

## ITEM 6. OTHER FEES

| NAME OF FEE                                   | AMOUNT                                                                     | DUE DATE                      | REMARKS                                                          |
|-----------------------------------------------|----------------------------------------------------------------------------|-------------------------------|------------------------------------------------------------------|
| Franchise Royalty Fee                         | 5% of Gross Revenues (1)                                                   | Weekly                        | See Note 2                                                       |
| Local Marketing Commitment                    | 3% of Gross Revenues or \$2,000, whichever is greater.                     | Monthly                       | See Note 2 & 3                                                   |
| System Marketing Fund                         | Up to 1.5% of Gross Revenues, once established                             | Weekly                        | See Notes 2 & 4                                                  |
| Supplier Approval Fee                         | Reasonable amount for Our costs and efforts (currently \$500)              | Upon request for approval     | See Note 5                                                       |
| Initial Training Fee for Additional Attendees | Reasonable Fee (currently \$2,000 per day)                                 | Upon Invoice                  | See Note 6                                                       |
| On-Site Consultation and Additional Training  | Our then-current per diem fee, plus Our expenses (currently \$250 per day) | Upon Invoice                  | See Note 7                                                       |
| Late Payment Fees                             | \$250 plus interest on late amounts at 18% or highest legal rate           | Upon Invoice                  |                                                                  |
| Attorney Fees                                 | Reasonable amount to prevailing party in any legal proceeding              | Upon conclusion of proceeding | See Note 8                                                       |
| Transfer Fee                                  | 25% of then current Initial Franchise Fee                                  | Before actual transfer        | See Note 9                                                       |
| Renewal Fee                                   | 25% of then current Initial Franchise Fee                                  | Prior to Renewal              | See Note 9                                                       |
| Audit                                         | Reasonable Accounting and Legal Fees                                       | Upon Invoice                  | See Note 10                                                      |
| Insurance Premiums                            | What You have failed to pay the Insurer                                    | Immediately upon Invoice      | Payable to Us to reimburse Us for having to pay Your obligation. |
| Indemnification                               | Amount of claim and costs incurred                                         | Upon Demand                   | See Note 11                                                      |

|                                 |                                                                                 |                               |             |
|---------------------------------|---------------------------------------------------------------------------------|-------------------------------|-------------|
| Liquidated Damages<br>- Default | Lump Sum. Calculation based<br>on number of months and<br>Royalty Fee averages. | Upon<br>Demand                | See Note 12 |
| Relocation Fee                  | \$5,000                                                                         | Upon<br>relocation<br>request | See Note 13 |

All fees are imposed uniformly and paid to Us unless indicated otherwise. None of these fees are refundable for any reason except errors. All fees payable to Us are intended to be “net” amounts and You will pay or reimburse Us for any sales, services, use or similar taxes which may be imposed upon any such fees (specifically not to include income taxes).

(1) **"Gross Revenues"** is defined in the Franchise Agreement and includes all cash or other form of payment received for the use of the Outlet and sales of products and services in or from the Store, including food, drinks, clothing and other tangible property of every kind, or for entertainment charges, made or sold at, in, upon or from Your Store and from any vending, game or other type of machine or similar device located at Your Store; and any and all other amounts which are received as compensation for any services rendered from Your Store including catering and delivery services. All amounts collected and paid out for sales taxes, selling, or issuing system gift or loyalty cards, and the proceeds from the sale of any furniture, fixtures or equipment previously used at Your Store are excluded from Gross Revenues.

(2) You must pay all weekly fees no later than the third (3<sup>rd</sup>) day following the end of each week and all monthly fees no later than the third (3<sup>rd</sup>) day following the end of each month. You agree to pay all such fees to Us by direct transfer of funds (“EFT”) or other method of payment or periodic basis designated by Us. You must submit, for each designated period, a sales report, and ensure that each account has sufficient funds for the transfer.

(3) You will conduct local advertising and sales promotion programs for Your Store as designated by Us in the Manual or otherwise in writing. You must spend this amount monthly to conduct approved local advertising and sales programs for Your Store and send Us proof of spending. In Our sole discretion, We may require the use of an approved vendor for local advertising and will notify You prior to such requirement.

If an advertising cooperative is established in Your area, You must join it, and contributions to it will be applied toward this obligation. The mandatory contribution to an Ad Co-op may exceed two percent of Gross Revenues if the Ad Co-op members agree to additional funding in accordance with established Bylaws.

## NOTES:

(4) The System Marketing Fund is not yet established. These payments will not be required until We determine that establishing the System Marketing Fund is appropriate for the System. We will also set the initial contribution rate at that time, which may be less than the maximum rate. We will deposit each payment into a separate bank account to be used for advertising and marketing purposes as described in ITEM 11. Company will make contributions at the same rate for its Store(s). We will deposit each payment into a separate bank account to be used for advertising and marketing purposes as described in ITEM 11.

(5) We may impose reasonable inspection and supervision fees to cover Our costs in evaluating and maintaining alternative brands or suppliers You propose. Our current estimated cost is \$500 although costs could exceed this amount depending on the product.

(6) You, Your Designated Operator (if different person) and General Manager must attend and successfully complete Our Initial Training. We will provide such training without charge for three people. You are responsible for the cost of travel, hotel, and meals expenses for Your attendees. If You want Us to provide Initial Training to additional people or replacement personnel, You must pay Us the then-current charge (presently \$2,000 per person) for the training described in Item 11 below. Additional Initial Training is currently conducted in a Company Store.

(7) This estimate is for additional training if You request Our assistance or if We determine that You require Our assistance. Typically, additional training might include 1 to 2 persons for 2 days. Fees may not be uniformly imposed depending on specific circumstances. Additional training is currently conducted in Your Store.

(8) Such fees will vary based on circumstances and may include reimbursement for legal or accounting fees that occur as a result of any breach of the Franchise Agreement.

(9) Payable to Us for successor franchise. These Fees may not be uniformly imposed at all times.

(10) If you understate any payment owed to Us by more than 2%, You must reimburse Us for Our actual costs included in conducting the audit, including attorney's fees, accountants' fees, travel expenses and compensation of Our employees. These fees will not exceed Our actual costs.

(11) You must indemnify Us for claims relating to Your operation of the Store.

Notes:

(12) If the Franchise Agreement is terminated due to Your default, You must pay Us liquidated damages equal to the average monthly Royalty Fees owed or paid during the 12 full calendar months of operation preceding the effective date of termination multiplied by (A) 24 (being the number of months in two (2) full years), or (B) the number of months remaining in the Agreement had it not been terminated, whichever is less.

(13) If You lose Your lease or want to move Your location. Approval of relocation is at Our discretion.

There are no additional fees that an Area Developer would pay other than those listed above.

**[BALANCE OF PAGE LEFT BLANK INTENTIONALLY]**

**ITEM 7. ESTIMATED INITIAL INVESTMENT**  
**YOUR ESTIMATED INITIAL INVESTMENT**

|                                                                              | AMOUNT    |           | METHOD OF PAYMENT | WHEN DUE                         | TO WHOM PAYMENT IS MADE                |
|------------------------------------------------------------------------------|-----------|-----------|-------------------|----------------------------------|----------------------------------------|
|                                                                              | Low       | High      |                   |                                  |                                        |
| Initial Franchise Fee <sup>1</sup>                                           | \$30,000  | \$30,000  | Lump sum          | Execution of Franchise Agreement | Us                                     |
| Opening Assistance Training Fee <sup>2</sup>                                 | \$5,000   | \$5,000   |                   |                                  |                                        |
| Training Travel & Living Expenses <sup>3</sup>                               | \$5,000   | \$10,000  | As incurred       | Prior to and during Training     | Vendors, Airlines, Hotels, Car Rentals |
| Rent & Security Deposit <sup>4</sup>                                         | \$16,000  | \$24,000  | As agreed         | As arranged                      | Landlord                               |
| Leasehold Improvements <sup>5</sup>                                          | \$25,000  | \$150,000 | Varies            | Prior to Opening                 | Approved Suppliers & Contractors       |
| Architectural Plans                                                          | \$5,000   | \$15,000  | As agreed         | As arranged                      | Approved Vendor                        |
| Furniture, Fixtures, Décor, Kitchen Equipment & Other Equipment <sup>6</sup> | \$150,000 | \$300,000 | As incurred       | Prior to Opening                 | Approved Suppliers                     |
| Signage <sup>7</sup>                                                         | \$25,000  | \$60,000  | As incurred       | Prior to Opening                 | Approved Suppliers                     |
| Point of Sale System & other Computer Systems <sup>8</sup>                   | \$10,000  | \$15,000  | As incurred       | Prior to Opening                 | Approved Supplier                      |
| Initial Inventory & Supplies <sup>9</sup>                                    | \$25,000  | \$75,000  | As arranged       | Prior to Opening                 | Approved Suppliers                     |
| Grand Opening Event <sup>10</sup>                                            | \$5,000   | \$5,000   | As incurred       | Prior and at Opening             | Approved Suppliers                     |
| Professional Fees <sup>11</sup>                                              | \$3,000   | \$7,000   | As Incurred       | As Incurred                      | Accountants, lawyers, etc.             |

|                                                                    |           |           |                             |                  |                                               |
|--------------------------------------------------------------------|-----------|-----------|-----------------------------|------------------|-----------------------------------------------|
| Permits and Licenses <sup>12</sup>                                 | \$2,000   | \$6,000   | As Incurred                 | Prior to Opening | Government agencies                           |
| Insurance, Miscellaneous Deposits & Prepaid Expenses <sup>13</sup> | \$20,000  | \$40,000  | As Incurred                 | Prior to Opening | Insurance Company, Suppliers, Utilities, Etc. |
| Miscellaneous Expenses <sup>14</sup>                               | \$5,000   | \$10,000  | As Incurred                 | As Incurred      | Suppliers, Utilities, Deposits                |
| Additional Funds Three Months <sup>15</sup>                        | \$30,000  | \$60,000  | As Arranged                 | As Incurred      | Employees, Suppliers, Utilities               |
| TOTAL <sup>16</sup>                                                | \$361,000 | \$812,000 | Excluding real estate costs |                  |                                               |

#### FOOTNOTES:

- (1) You must pay the Initial Franchise Fee when You sign the Franchise Agreement and prior to opening Your Store. It is not refundable for any reason.
- (2) You agree to pay Us an Opening Assistance Training Fee for assisting with and training Your employees as part of the Store's opening in the amount of \$5,000. In Our sole determination, the fee may be lower if based on the distance traveled by Our trainers. You must pay a Training Fee, which includes Our corporate trainer who will conduct Opening Assistance Training prior to the opening of the Store and assist with operations after opening. This fee is due when You submit the executed Franchise Agreement, prior to the opening of the Store. We may in Our sole discretion determine that Opening Assistance Training is not necessary.
- (3) You, Your Designated Operator (if different person) and General Manager must attend and complete to Our satisfaction Our Initial Training. Initial Training is without charge for up to three people. You must pay for the expenses of attendance, such as lodging, meals, transportation, and wages of trainees. The cost of these expenses will depend on the distance You must travel, type of accommodations You choose, the number of Your employees attending training and their wages. Training will take place in a Store operated by Company. The amounts in the table represents the estimated costs and expenses incurred for You and one additional person.

ADDITIONAL FOOTNOTES ON NEXT PAGE

## NOTES:

- (4) A typical Store will range in size from 1,800 to 2,500 square feet. It is difficult to estimate lease acquisition costs because of the wide variation between various locations. Lease costs will vary based upon square footage, cost per square foot, and required maintenance costs.

A lease normally requires advance payment of the first and last month's rent. The levels of rent vary widely from area to area and for different locations within the same area. A location within a mall or large shopping center may be smaller but require higher rent. Your credit history and business experience may also determine the financial terms of the lease. You should investigate all these costs in the area, and the specific site where You wish to establish Your Store. The estimated range of costs in this category only includes Your costs to enter into a lease agreement for the Store premises. You should investigate all these costs in the area, and for the specific site where You wish to establish Your Store.

- (5) The cost of developing a site for a PAINTED DOUGH franchise may vary considerably depending on such factors as geographic location, size, materials expense, subcontractor expense, tenant landlord improvement allowances, and the local real estate market. Depending on the floor plan, you will need a space between 1,800 to 2,500 square feet.

You will pay all construction expenses, including the cost of all required site work, leasehold improvements, and permitting expenses. We will provide you with mandatory specifications and layouts for your PAINTED DOUGH franchise location, including requirements for dimensions, design, image, interior layout, decor, fixtures, color scheme and other suggestions. Some landlords will finance improvements by amortizing them over the term of a lease, with a higher rental amount to cover costs. You should investigate all these costs in the area, and the specific site where You wish to establish Your Store. We do not require You to purchase real estate, and the total estimated initial investment does not include the acquisition of real estate.

- (6) This is an estimate of the cost of leasing or purchasing required Store equipment, fixtures, furniture and suppliers. The Manual contains a list of mandatory items for new Stores with instructions for various site variations. Although You are not prohibited from doing so, We do not recommend that You purchase additional or upgraded items other than as specified in the Manual.
- (7) The estimated figures include Our required interior signs and one exterior sign which bear the Marks. The cost of the signs varies depending on the type, size, and location of the sign, and may also be affected by shipping costs, as well as local zoning and other ordinances and regulations and landlord restrictions. If You want additional exterior signs, Your cost will be higher.

## NOTES CONTINUED:

- (8) This is an estimate of the cost of leasing or purchasing the required point-of-sale system, camera system and other related technology. Item 11 describes the POS System. The Manual contains a list of mandatory items for new Stores with instructions for various site variations.
- (9) The initial inventory consists primarily of food and beverage products, paper products, smallwares, cleaning supplies, printing, uniforms, promotional material, and other supplies. The amount will vary depending on the sales volume You anticipate, as well as current market prices. Various items must be purchased from Our Approved Suppliers.
- (10) You and We will agree on a specific grand opening marketing program for Your new Store. At minimum, You must spend a minimum of \$5,000 on an approved grand opening program.
- (11) Professional fees include any amounts You spend for accounting or legal services in establishing the Store. Because of the variability of these fees, this is, at best, an estimate and You should determine the actual range of fees before signing the Franchise Agreement.
- (12) You must obtain all necessary business permits, licenses and approvals to operate the Store. The costs of these licenses and other licenses and permits vary widely from area to area. You should contact an attorney and the government authorities in Your area for information about the cost and level of difficulties in obtaining all necessary permits.
- (13) You should have funds for one year's estimated insurance premiums. The cost of insurance varies depending on many factors. Insurance must be obtained to meet minimum requirements set by the System Standards. Initial premiums for commercial general liability insurance are subject to change due to market forces. The cost of other coverage, including workers' compensation and employer liability coverage varies depending on many factors. You should contact your insurance agent and obtain an estimate of Your actual insurance costs
- (14) This estimate is for a reserve to cover incidental unexpected costs. You may want to reserve more.

ADDITIONAL FOOTNOTES ON NEXT PAGE

NOTES CONTINUED:

- (15) This estimate includes working capital for the first 3 months of operating the Store (other than the items identified separately in the table). This estimate includes payroll costs. Your costs will depend on factors such as the local market for Store products, the prevailing wage rate, competition, and the sales level reached during the initial period. You should review these figures carefully with a business advisor or accountant.
- (16) This is Our estimate of the total expenses to start Your Store. The above are all estimates based on Our experience with the Company Store in Chino, California. Except as otherwise noted, none of these payments are refundable. We will not finance any of these payments. You are cautioned to allow for inflation, discretionary expenditures, fluctuating interest rates and other costs of financing, and local market conditions, which can be highly variable and can result in substantial, rapid, and unpredictable increases in costs. You should review these figures carefully with a business advisor, accountant, or attorney before making any decision to purchase a franchise.

**[BALANCE OF PAGE LEFT BLANK INTENTIONALLY]**

**Area Development Agreement (1)**  
**Your Estimated Initial Investment**

|                                  | AMOUNT    |           | METHOD OF PAYMENT       | WHEN DUE         | TO WHOM PAYMENT IS MADE |
|----------------------------------|-----------|-----------|-------------------------|------------------|-------------------------|
|                                  | Low       | High      |                         |                  |                         |
| Development Fee (2)              | \$40,000  | \$70,000  | Lump Sum                | Execution of ADA | Us                      |
| Estimated Initial Investment (3) | \$331,000 | \$782,000 | See Item 7 chart above. |                  |                         |
| Total                            | \$371,000 | \$852,000 |                         |                  |                         |

**FOOTNOTES:**

- (1) We are also offering franchises to qualified Developers who will develop and operate at least 3 to 5 Stores under an Area Development Agreement. The Development Fee is contingent on the number of Stores You intend to open under the terms of the Area Development Agreement.

Upon execution of the Area Development Agreement, You must pay Us a nonrefundable Development Fee equal to the Initial Franchise Fee for the first Required Store (\$30,000), plus \$10,000 for each additional Required Store to be developed under the Area Development Agreement. There are no refunds of these fees.

As You develop each Required Store, You will execute Our then current Franchise Agreement. The Initial Franchise Fee for all Required Stores is \$30,000. For the second and subsequent Required Stores, You will pay Us the Initial Franchise Fee, less \$10,000 credit from the Development Fee for that Store.

- (2) The low estimated cost is the Development Fee for a three (3) Store Area Development Agreement and the high estimated cost is the Development Fee for a five (5) Store Area Development Agreement.
- (3) You will incur total initial expenses for each Required Store developed as set forth in the first table of this Item 7. These initial expenses may increase over the term of the Area Development Agreement based on inflation and other economic factors.

## ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Each Store must be constructed or remodeled to Our specifications. You must obtain Our written approval of any proposed alterations to Our specifications before any work is begun. You must design, construct, remodel, equip and supply Your Store from vendors and suppliers previously approved by Us ("**Approved Suppliers**").

To insure that the highest degree of quality and service is maintained, You must operate Your Store in strict conformity with the methods, standards and specifications that We prescribe in the Manual or otherwise in writing. We may modify or add new specifications in writing. We may terminate Your franchise if You purchase goods or services that are not according to Our specifications or that are not from Our Approved Suppliers. You must purchase Our proprietary food products and items bearing Our Marks which We or designated suppliers will sell to You at a reasonable markup. You are not obligated to purchase anything else from Us or an affiliate, but You will be obligated to make 100% of Your purchases from Approved Suppliers.

You must subscribe to any third-party on-line ordering or delivery services that We have approved and may be available to provide services in Your area. We will provide You with a list of currently approved vendors in Your area. You may not use any third-party on-line, delivery, or voucher company that has not been approved by Us. You are required to participate in any gift card or customer loyalty programs that have been approved by Us. As of the date of this Disclosure Document, there is an Approved Supplier who is the only source for the point of sales system to be used in Your Store (See Item 11).

We may develop programs and relationships that involve volume purchases of products designated in the Manual. In order to maintain uniformity and conformity within the System, You must cooperate with Us and participate in these programs and purchase the products from suppliers designated in the Manual so long as they are also required for all other franchisees similarly situated. We may modify or add new specifications in writing. To the fullest extent permitted by applicable law at such time, We reserve the right to establish maximum, minimum or other pricing requirements with respect to the prices You may charge for products or services, and You agree to comply with any such requirements.

We may negotiate purchase arrangements with suppliers including price terms for the benefit of franchisees and the System. The only material benefits You will receive for using Approved Suppliers are lower prices and better services and quality due to Our negotiations with them on behalf of the System. The products and services sold from Your Store must be approved by Us, strictly conform to Our specifications, and purchased from the Approved Suppliers identified in Our Manual.

We will specify Approved Suppliers and the products and services that are required to be purchased or leased in the Manual. The list of required items will be changed to meet current needs. Approved Suppliers are identified in Our Operations Manual. We may update our list of Approved Suppliers as We deem necessary or appropriate. Approved Suppliers and specifications are determined based on the current needs for operating the Store. We evaluate Approved Suppliers based on price, service, quality, and other commercially reasonable benchmarks. We have the right to limit the number of vendors and suppliers for products, goods, supplies, fixtures, and equipment. We also have the right to designate a single source of supply for certain products. We or an affiliate may be that single source.

If We introduce proprietary products and/or items bearing the Marks, You may be required to purchase them from Us or a designated Affiliate such as Company. You may be required to purchase from Us in the future software, Internet, and multi-area marketing programs and to participate in these programs, as designated in the Manual. There are no such requirements at this time, and We estimate based on present circumstances, that these required purchases will be less than five percent of Your operating expenses.

We will approve additional suppliers. If You want to purchase items from another supplier, You may request Our "Supplier Approval Form." We reserve the right to charge a fee for processing your requests. Our specifications and standards for supplier approval are generally available upon written request. Based on the information and samples You supply Us, We will test the items supplied and review the proposed supplier. We will complete Our review promptly, generally within 90 days. You must not sell or offer for sale any products/services of the proposed supplier until our written approval of the proposed supplier is received.

We and Our affiliates reserve the right to receive discounts, rebates, allowances, and other consideration from suppliers of products and services as a result of franchisee purchases. If rebates are received from suppliers based on Franchisee purchases, these funds will be used for whatever purpose in Our and Our affiliates' sole discretion. Typically, rebates are calculated as a percentage of franchisee purchases.

We do not have any purchasing or distribution cooperatives. During the last fiscal year, neither We nor Company received any revenues or rebates as a result of franchisee purchases. Other than in Company, none of Our officers own an interest in an Approved Supplier.

### Insurance

The Franchise Agreement (Section 11) requires You to obtain insurance from Qualified Insurance Carriers satisfactory to Us. Each insurance company must be rated no less than A VII by A.M. Best and Company. The insurance You must obtain includes coverage during the construction of Your Store and its operation. We and any designated affiliate must be named as an additional insured on each policy except workers compensation insurance.

The required insurance policies must have at least the minimum coverage specified in the Franchise Agreement. Your obligation to maintain this insurance will not be limited in any way by reason of any insurance We carry for Ourselves. The cost of insurance coverage will vary depending on the insurance carrier's charges, the terms of payment and your insurance history. You must also carry the insurance required by Your landlord and applicable law.

## ITEM 9. FRANCHISEE'S OBLIGATIONS

**THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AGREEMENT ("FA"), AND THE AREA DEVELOPMENT AGREEMENT ("ADA"). IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THESE AGREEMENTS AND IN OTHER ITEMS OF THIS FRANCHISE DISCLOSURE DOCUMENT.**

| Obligation                                             | Section in Agreement                                             | Item in Disclosure Document |
|--------------------------------------------------------|------------------------------------------------------------------|-----------------------------|
| a. Site Selection and acquisition/lease                | FA: §1.3, 15.5<br>ADA: §§1.1, 4.2                                | Items 1, 11                 |
| b. Pre-opening purchases/leases                        | FA: §§4, 8.1                                                     | Items 7, 8, 11, 16          |
| c. Site development and other pre-opening requirements | FA: §§1, 4, 5<br>ADA: §§1, 2, 4                                  | Items 1, 5, 7, 11, 12, 15   |
| d. Initial and ongoing training                        | FA: §5<br>ADA: §4.5                                              | Items 1, 11, 17             |
| e. Opening                                             | FA: §§1.4, 7.8<br>ADA: §2                                        | Items 5, 7, 11              |
| f. Fees                                                | FA: §§2, 3.2, 4.1, 4.8, 5.6, 11.6, 16.6<br>ADA: §§3, 4.3, 6.2(e) | Items 1, 5, 6, 7, 17, 19    |
| g. Compliance with standards and policies/Manuals      | FA: §4<br>ADA: §4                                                | Items 1, 11                 |
| h. Trademarks and proprietary information              | FA: §§4.5, 14<br>ADA: §4.4, 8.3                                  | Items 13, 14                |

| <b>Obligation</b>                                    | <b>Section in Agreement</b>                             | <b>Item in Disclosure Document</b> |
|------------------------------------------------------|---------------------------------------------------------|------------------------------------|
| i. Restrictions on products & services offered       | FA: §4<br>ADA: None                                     | Items 8, 16                        |
| j. Warranty and customer service requirements        | FA: §4.3<br>ADA: None                                   | Item 1                             |
| k. Territorial development and sales quotas          | FA: §1.2<br>ADA: §§1.1, 2, 4                            | Items 1, 12                        |
| l. Ongoing product/service purchases                 | FA: §4<br>ADA: None                                     | Items 8, 16                        |
| m. Maintenance, appearance & remodeling requirements | FA: §§3.2, 4, 6<br>ADA: None                            | Item 17                            |
| n. Insurance                                         | FA: §11<br>ADA: None                                    | Item 7                             |
| o. Advertising                                       | FA: §7<br>ADA: None                                     | Items 6, 7, 11                     |
| p. Indemnification                                   | FA: §10.2<br>ADA: §9.13                                 | Item 13                            |
| q. Owner's participation/ management/staffing        | FA: §§4.2, 4.9, 4.10, 9.4, 13.2<br>ADA: §§4.5, 8.4, 8.5 | Item 15                            |
| r. Records/ Reports                                  | FA: §§8, 9<br>ADA: None                                 | Items 6, 11                        |
| s. Inspections/Audits                                | FA: §9<br>ADA: §8.5                                     | Item 17                            |
| t. Transfer                                          | FA: §13<br>ADA: §§1.5                                   | Items 6, 17                        |
| u. Renewal                                           | FA: §3.2<br>ADA: §6                                     | Items 6, 17                        |

| Obligation                      | Section in Agreement                | Item in Disclosure Document |
|---------------------------------|-------------------------------------|-----------------------------|
| v. Post termination obligations | FA: §§4.9(f), 15<br>ADA: §§7.4, 8.9 | Item 17                     |
| w. Non-competition covenants    | FA: §4.9<br>ADA: §§8.8, 8.9         | Items 5, 17                 |
| x. Dispute resolution           | FA: §16<br>ADA: §9                  | Item 17                     |

## ITEM 10. FINANCING

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

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

**Except as listed below, We need not provide any assistance to You.**

A. Pre-opening. Before You open Your Store, We will:

1. Loan you a copy of Our confidential Manual, which contains mandatory and suggested specifications, standards, operating procedures, and rules, in written and/or electronic form. (Franchise Agreement, Section 4.4).
2. Provide You with assistance in locating the site for Your Store (Franchise Agreement, Section 1.3).
3. Review and comment on the proposed lease for Your Store which must be provided to Us prior to finalization and executed after Our approval (Franchise Agreements, Section 1.4 and 15.5).
4. Approve, if it meets Our standards and specifications for approval, plans submitted by You for the design of Your Store. You are responsible for conforming premises to building codes and local ordinances. (Franchise Agreement, Sections 1.3 -1.5).
5. Conduct an initial training program for Your Designated Operator, General Manager and Assistant Manager (Franchise Agreement, Section 5.1).

6. Inspect Your Store before opening and provide a Certificate of Opening. A Certificate of Opening may be obtained only after all local permits, certificates and codes have been met and a certificate of occupancy has been granted (Franchise Agreement, Section Franchise 1.5).
7. Assist You in developing a marketing program designed for Your Store's Grand Opening (Franchise Agreement, Section 7.8).
8. Advise and assist You in opening Your Store and be available to assist with its operations for as long as reasonably needed, in Our opinion (Franchise Agreement, Section 4.1).

B. Post-opening. During the operation of Your Store, We will:

1. Make available additional training programs as We deem appropriate (Franchise Agreement, Section 5.5).
2. Develop and administer, at Our discretion, advertising and promotion programs designed to promote the collective success of all Stores (Franchise Agreement, Section 7.3).
3. Administer the System Marketing Fund and develop a System Marketing Fund Policy (Franchise Agreement, Sections 7.3 and 7.4).
4. Deposit System Marketing Fund Fees received into a separate account (Franchise Agreement, Sections 7.3).
5. Advise and assist You with operating Your Store, including periodic calls or visits by Our representatives (Franchise Agreement, Section 9.2).
6. Include information about your Store on Our website and provide social media policies and guidelines (Franchise Agreement, Sections 7.9 and 7.12).

C. Site Selection.

You must select a site that meets Our approval. We will provide assistance in locating a site for Your Store. You must locate and obtain Our approval for the site of Your Store within three (3) months of executing the Franchise Agreement or the Preliminary Agreement if such is required. We may grant You an extension so long as We are satisfied that you are proceeding in good faith and with due diligence. You must use Our approved form to request any extension. We may terminate the Franchise Agreement (or Preliminary Agreement if executed) with no refunds if You have not obtained an approved site within three months or by the granted extension.

We will consider, as part of site approval, a number of factors such as potential customer density levels, assessment of a demographic study of the customer mix compared to existing profiles already established by Us, assessment of competitor activity, revenue generators, traffic patterns of the area, as well as specific size, parking, and other physical characteristics of the proposed site itself. We will use reasonable efforts to make a site acceptance decision within 30 days after We acknowledge receipt of a complete site information form and any other materials we have requested. Our approval means that the site and plans meet minimum specifications and is not a warranty of their appropriateness. We do not generally own the premises and lease it to franchisees.

#### D. Time Before Opening.

We believe that based upon Our experience, You should typically open a Store within twelve months after executing the Franchise Agreement. This length of time may be affected by factors such as difficulties in obtaining a lease for an acceptable premise, financing arrangements, building or sign permits, or delays caused by zoning or local ordinances, weather conditions, labor strikes, shortages of products and installation of equipment, fixtures, and signs. Failure to open within the specified time period is a breach of the Franchise Agreement and Your Franchise Agreement can be terminated. (Franchise Agreement Section 1.4)

If You lease the site for Your Store, You must provide Us for Our review and comment a copy of the proposed lease at least thirty (30) days prior to its being finalized and executed. As a condition of approving the lease, We will require that it include the Lease Provisions attached as Attachment 5 to the Franchise Agreement. We will not unreasonably withhold Our approval of any proposed lease that includes all the Lease Provisions.

You are responsible for conforming the premises to building codes and local ordinances. You must adhere to Our standards and specifications for the construction and design of the Store, which will include requirements for the interior and exterior layout, signage, equipment, fixtures, and trade dress as designated in the Manual. You must obtain Our prior written approval of site-specific drawings/plans before beginning construction. You may not open Your Store without Our prior written consent and satisfaction of all pre-opening obligations stated in the Manual and the installation of all equipment, fixtures, furnishings, and signs included in the plans and specifications approved by Us. We will inspect Your Store, and if approved, provide a Certificate of Opening.

You will be solely responsible for all hiring and employment decisions and functions relating to Your Store.

If You enter into an Area Development Agreement (“ADA”), You are responsible for securing sites We find acceptable and within the deadlines of the Development Schedule. If you fail to meet a deadline in the Development Schedule, You will be in default, and We may terminate the ADA.

#### E. Advertising.

We, Our affiliates, or approved vendors will develop marketing, promotion and advertising programs designed to promote PAINTED DOUGH businesses. Your participation in all such advertising and sales promotion programs must be in full and complete accordance with any terms and conditions as We may have established.

We will provide You with access to advertising and marketing materials and services to You. We currently conduct marketing at a trade area level to encourage visits from potential, as well as prior, customers. We may also use premium incentives and product awareness campaigns in advertising and promotion. Advertising media may include print, Internet, social media and digital marketing, vehicle wraps, fundraisers, public relations campaigns and radio or television (primarily local in scope). Whenever possible, the material is produced in-house or provided by vendors.

You may develop advertising materials for Your own use at Your own cost. All advertising materials must be approved by Us in advance and in writing. Approval takes between 30 and 60 days. All of Your advertising, promotion and marketing must be completely clear and factual, not misleading, and conform to the highest standards of ethical marketing and promotion policies and comply with all truth in advertising laws. You must submit to Us samples of all advertising, promotional and marketing materials (including Internet or electronic media marketing material) for Our prior written approval. You must only use advertising copy and other materials which are in strict compliance with Our requirements, as set forth in the Manual or otherwise.

There are no restrictions on Your advertising, except that You may not advertise independently on the internet using Our Marks, and Your advertising must be approved by Us, as stated above. You may not register any domain name or establish or maintain any website, social media site or other digital presence in any media or on any platform in any manner whatsoever that uses the Marks without Our prior written approval. You must adhere to the social media policies that We establish from time to time and must require Your employees to do so as well. You must participate in Our “eclub” marketing campaigns, Gift Card program, Loyal Customer program and similar marketing programs as they are developed.

#### Grand Opening.

You must conduct a pre-approved grand opening promotion for Your Store. You must spend at minimum \$5,000 in approved expenditures in regard to such promotion. We will assist You in planning Your grand opening. You must submit confirmation of Your Opening Marketing spend following the procedures and timing requirements designated in the Manual.

### Local Marketing.

You must conduct local advertising and sales promotion programs for Your Store as designated by Us in the Manual or otherwise in writing. You must spend each month \$2,000 or two percent (3%) of Your Store's Gross Revenues, whichever is greater, for pre-approved local advertising and promotion of Your Store in its trade area. Our current Local Advertising program is specified in the Operations Manual and utilizes Facebook and other social media platforms for promotions, campaigns, and various marketing programs. You must submit confirmation of Your Local Advertising following the procedures and timing requirements designated in the Manual. In Our sole discretion, We may require the use of an approved vendor for local advertising and will notify You prior to such requirement.

If an Advertising Cooperative ("**Ad Co-op**") is established for the area where Your Store is located, You must join, actively participate in, and contribute to the Ad Co-op. Contributions to the Ad Co-op will be applied toward Your Local Marketing Commitment. Each Ad Co-op will be organized and governed in a form and manner and will operate according to written governing documents, all of which must be approved in advance by Us. The Ad Co-op may also serve as a means of exchanging ideas, sharing information and problem solving.

The Franchise Agreement gives Us the power to require Ad Co-ops to be formed, changed, dissolved, or merged. We will determine the area of each Ad Co-op. You must contribute to the Ad Co-op up to 3% or more of Your Store's Gross Revenues, which is in addition to your contributions to the system wide System Marketing Fund discussed below. The Ad Co-op members may agree to additional funding in accordance with its established Bylaws. We will oversee each Ad Co-op. If You are in default of the Franchise Agreement, You will not have voting privileges. The Ad Co-op may prepare annual or periodic financial statements, and these will be available to You upon request. We have the right to form, change, dissolve, and merge any Ad Co-op and to create and amend any organization and governing documents of any Ad Co-op in our sole business judgment.

### System Marketing Fund.

In order to maximize the general public recognition and acceptance of PAINTED DOUGH Stores, We may, at such time as We believe is appropriate for the System, establish a System Marketing Fund. You must contribute up to 1.5% of Your Store's Gross Revenues to the System Marketing Fund. We will administer the System Marketing Fund and spend System Marketing Fund Fees only for the purposes described in the Franchise Agreement and follow the procedures contained in the System Marketing Fund Policy described in the Manual.

The System Marketing Fund will be used to develop, produce, and administer marketing programs designed to increase sales for all Stores system wide. Advertising may be in the form of print ads, radio, television, or electronic media and may be conducted on a regional and/or national basis. We may use a national or regional

advertising agency or in-house advertising to create and place advertising. All interest earned on monies contributed to the System Marketing Fund will be used for the same purpose. System Marketing Fund contributions will not be targeted to advertise or sell franchises. We will account for monies in the System Marketing Funds separately from Our other amounts received. The purpose of the System Marketing Fund is to develop advertising and marketing programs that will benefit all Stores wherever located. We cannot ensure that the System Marketing Fund's expenditures will be equally beneficial or proportionate to each Store's contributions.

Money from the System Marketing Fund may be used to pay Us for the reasonable salaries, administrative costs, maintaining and updating Our website, marketing surveys, travel expenses and overhead incurred by Us in the administration of that Fund and its programs. We may reimburse Ourselves for administrative expenses with respect to the System Marketing Fund (i) the direct costs and expenses incurred by Us or Our Affiliates in administering the System Marketing Fund and (ii) up to fifteen (15%) of System Marketing Fund contributions for each of Our fiscal years to cover (A) Our administrative costs and overhead incurred by Us in connection with activities related to the administration of the System Marketing Fund and its programs and (B) a pro rata portion of the compensation paid by Us or Our Affiliates to persons for their work on System Marketing Fund related matters. We will prepare an annual unaudited statement of monies collected and expenditures of the Funds and provide it to You upon Your written request.

#### F. Technology.

Prior to operating Your Store, You must purchase the required computer hardware, software, internet connections and service, required dedicated telephone and power lines and other related accessories, peripherals, consoles, menu boards and equipment required to operate Our then-current mandatory point of sale system and customer order system. Additionally, You must subscribe to any third-party on-line ordering or delivery services that We have approved.

We may require you to upgrade or update Your Store's software, hardware and other systems, with reasonable limitation on the frequency or cost of this requirement. You are responsible for installing a broadband hook-up and other utilities for the Store.

Currently, We require in the operation of Your Store the Toast point of sales system ("POS System"). You must record all sales on the POS System. The POS System will generate reports on the sales and expenses of the Store, and it currently costs approximately \$10,000 which includes three stations, two monitors and two printers. You will also be responsible to pay the hardware and software subscription directly to Toast. The monthly subscription ranges between \$500.00 to \$800.00 depending on the options You select for Your Store. You will be solely responsible for the acquisition, operation, maintenance, and upgrading of the POS System

Neither We, nor any affiliate is obligated to provide ongoing maintenance, repairs, upgrades, or updates for the POS System. We currently do not require that You purchase a maintenance, repair, upgrade, or update a service contract for the POS System or Your Computer System, but it is strongly suggested, and We reserve the right to do so in the future.

We reserve the right to change the POS System cash register and back-of-office computer at any time but will not require you to replace these items more than three times during the initial term of the Franchise Agreement. We reserve the right to change the software each calendar year. At such time as We designate the change or enhancement to the POS System You may be required to make certain payments to Us or Our designated suppliers. You will have 30 days to install and commence using the changed or enhanced POS System. You must acquire the right to use hardware, software, peripheral equipment, and accessories, and arrange for installation, maintenance, and support services of the initial, changed, or enhanced POS System all at your cost. There are no contractual limitations on the frequency and cost of this obligation.

We will have independent access to the information that will be generated or stored in any POS system, electronic cash register or computer system, such as financial and marketing information. There are no contractual limitations on Our right to access this information. If We establish an online management and communication system for Store Operations, You must participate fully with its requirements as stated in the Manual.

All of the designated equipment and software is available generally at competitive prices. The purchase cost is estimated at \$5,000 to \$10,000. Your annual maintenance costs are estimated at \$1,800 to \$2,000. None of the above are proprietary properties of Us or Our affiliates, and We are not obligated to provide or assist You in obtaining the above items or services.

G. Confidential Manual.

You may review Our Manual before purchasing a Franchise. You may not copy any of the information contained in the Manual, as it contains proprietary information. You must sign a confidentiality agreement regarding the Manual before Your review. (**Exhibit C**). You must treat Our Manual, and other written materials created for or approved for use in the operation of Your Store, and the information contained in them, as confidential. The Manual will remain Our sole property. We may, from time to time, revise the contents of the Manual and you must comply with each new or changed standard.

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#### H. Training.

Our Initial Training Program consisted of the following content according to the following general outline:

#### INITIAL TRAINING CHART

| <b>Subject</b>                                                                                                                                                                                                                                                                                    | <b>Hours of Classroom Training</b> | <b>Hours of On-The-Job Training</b> | <b>Location</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------------------------------|-----------------|
| Branding, Guest Experience and Fancy Donuts <ul style="list-style-type: none"><li>- Company History</li><li>- Guest Experience</li><li>- Menu Review</li><li>- Fancy Donut Creation, Inventory, &amp; Service</li></ul>                                                                           | 2                                  | 38                                  | Company Store   |
| Mochi Products, Prep & Inventory <ul style="list-style-type: none"><li>- Mochi Donuts</li><li>- Mochi Cakes</li><li>- Icing</li><li>- Product Inventory, Management &amp; Service</li></ul>                                                                                                       | 0                                  | 40                                  | Company Store   |
| Vegan Products, Prep & Inventory <ul style="list-style-type: none"><li>- Vegan Donuts</li><li>- Vegan Icing</li><li>- Product Inventory, Management &amp; Service</li></ul>                                                                                                                       | 0                                  | 40                                  | Company Store   |
| Kitchen Management, Prep & Breakfast Items <ul style="list-style-type: none"><li>- Opening &amp; Closing Procedures</li><li>- Kitchen Maintenance &amp; Sanitation</li><li>- Equipment Inventory &amp; Maintenance Managing Transactions</li><li>- Breakfast Items Prep &amp; Inventory</li></ul> | 0                                  | 40                                  | Company Store   |
| POS System, Cold Brew & Teas <ul style="list-style-type: none"><li>- POS Training, Payment collection</li><li>- Cold Brews</li><li>- Teas &amp; Bar</li></ul>                                                                                                                                     | 2                                  | 38                                  | Company Store   |

| <b>Subject</b>                                                                               | <b>Hours of Classroom Training</b> | <b>Hours of On-The-Job Training</b> | <b>Location</b> |
|----------------------------------------------------------------------------------------------|------------------------------------|-------------------------------------|-----------------|
| Store Management<br>- CRM<br>- Revenue Building<br>- Employment<br>- Training<br>- Budgeting | 4                                  | 36                                  | Company Store   |
| <b>TOTALS:</b>                                                                               | 8                                  | 232                                 |                 |

**FOOTNOTES:**

(1) The above description reflects the typical content, schedule of the Initial Training Program. Initial Training will be conducted in one of Company's Stores, located in Chino, California. Initial training consists of 6 weeks of training. Initial Training is without charge for up to three people. We expect to conduct these training courses several times each year. Our principal trainers have experience in Store operations with Us or with other food systems. Danny Truong is in charge of Our training.

(2) Your Designated Operator, Your General Manager (if different person) and any Assistant Manager(s) designated by Us must attend and successfully complete to Our satisfaction Our Initial Training. We may terminate the Franchise Agreement for failure to successfully complete this training course. We will provide such training without charge for three people. You are responsible for the cost of travel, hotel, and meals expenses for Your attendees.

Initial Training is without charge for up to three people. If You want Us to provide Initial Training to additional people, You must pay Us the then-current charge (presently \$2,000 per person) for the training described in Item 11 below. Additional Initial Training is currently conducted at a Company Store.

(4) The materials used in Our Initial Training are the Manual and other materials such as various videos, demonstrations, and checklists. We may modify Our training programs at any time. We may develop audio-visual and other training materials at a reasonable charge. The actual training hours will depend on a variety of factors, including the trainee's prior experience and his or her ability to pass any written and/or practical exams to Our reasonable satisfaction.

(5) As We deem necessary, We may provide employees (up to 2) for a certain period of time to conduct on-site training. We may charge Our then-current per diem per employee (Currently \$250 per day), plus reasonable travel-related expenses for such on-site training and assistance.

## NOTES:

(6) As We deem necessary, We may require that You and Your personnel attend additional training courses or programs covering operations and new product or procedure introductions. We may require You to pay a reasonable fee for the additional training. Currently, Our training fee is \$500 per day. You must pay for all travel, lodging and food costs for You and Your personnel. We expect that additional training will be conducted at one Our Company Stores and will be one or two days in duration and cover changes in Store products and procedures. Under normal circumstances, the additional training will not occur more than once a year. See Item 6 for current daily charge.

(7) If You replace the Designated Operator or General Manager, they must successfully complete the Initial Training Program. You must pay Us the then-current fee (presently \$2,000 per person) and pay for all travel, lodging and food costs for Your personnel.

### Opening Assistance Training.

If We decide it is appropriate or necessary, We will provide Your staff with opening assistance at Your Store. Typically, the Opening Assistance Training will have a duration of 2 weeks and starts one (1) week prior to Your Store's opening unless We determine additional assistance is required.

## ITEM 12. TERRITORY

You must operate Your Store at a specific location selected by You and approved by Us. You will have the right and obligation to operate and maintain Your Store within a designated geographic area as described in this Item 12 (Your "**Protected Area**").

You do not have the right to use alternative channels of distribution (e.g., catalog sales, internet sales, etc.) in connection with offering the products and services of the System unless otherwise approved by Us. You will not receive an exclusive territory and You may face competition from other franchisees, from outlets that We own, or from other channels of distribution or competitive brands that We control.

If Your Store is located within a high-density area, then You and We will agree on the area, if any, in which You will have the above territorial protection. We have the discretion to determine what is to be considered a "high density area", which will typically be an area with a high degree of pedestrian traffic, such as a downtown portion of an urban area with high rise commercial buildings, or a densely populated residential area with primarily multi-family or apartment units.

We agree that unless Your Store is in a “high density area”, We will not establish another Store within three (3) miles of Your Store’s front door, except for the “Reserved Rights” (defined below) and so long as You are in full compliance with the Franchise Agreement (“**Territory Protection**”).

Reserved Rights:

We and Our affiliates retain all rights with respect to Stores, the Marks, the sale of similar or dissimilar products and services, and any other activities We deem appropriate and specifically reserve the following rights (“**Reserved Rights**”):

- 1) To operate, and authorize others to operate, Painted Dough Store at any location and of any type or category whatsoever outside the Protected Area or Development Area (defined below);
- 2) To operate, and authorize others to operate a business under any name *other than* PAINTED DOUGH, outside or within the Protected Area or Development Area, at any location and of any type or category whatsoever;
- 3) To produce, license, distribute and market products and services using the Marks or other marks through any distribution channel, at wholesale or retail, including but not limited to, by means of the Internet (or any other existing or future form of electronic commerce), product and catalog sales, direct mail advertising and other distribution methods. Other distribution channels or methods include, without limitation, grocery stores, club stores, convenience stores, military installations, online subscription service, or industry locations (e.g. manufacturing site, office building). We are not required to pay You for soliciting or accepting orders from inside the Protected Area or Development Area;
- 4) To operate, and to authorize others to operate, a Painted Dough Store at a Non-Traditional Venue outside or within the Protected Area or Development Area. “**Non-Traditional Venue**” means a site or location for which the lessor, owner or operator thereof has indicated its intent to limit the operation of facilities to itself or a master concessionaire and which site or location is either (A) within another primary business or (B) at an institutional setting such as a school, college, university, governmental facility, hospital, hotel, limited access highway, shopping mall, airport, toll road, office or in-plant food facility, sports arena and stadium, supermarket, grocery store or convenience store;
- 5) To merge with, acquire or become associated with (“**Merger/Acquisition Activity**”) any businesses or restaurants of any kind under other systems and/or other marks, which businesses and restaurants may convert to or operate under the Marks and may offer or sell menu items, products and services that are the same as or similar to a Painted Dough Stores (“**Converted Outlet**”), and such Converted Outlet may be located anywhere, including within the Protected Area or Development Area.

We reserve all rights not expressly granted in the Franchise Agreement. The Franchise Agreement will not grant You any options, rights of first refusal or similar rights to acquire additional franchises within the Protected Area or contiguous areas. You maintain rights to the Protected Area even though the population increases. Your Territory Protection is not dependent upon achievement of a certain sales volume, market penetration or any other contingency, and it will not be altered except by mutual consent. There is no minimum sales quota.

There are no restrictions on Your advertising, except that You may not advertise independently on the internet, or outside the Protected Area, and You may not maintain any website or any presence on the Internet without Our prior written consent. Your advertising must be approved by Us, as stated in Item 11 above.

You must receive Our prior written approval before relocating the Store and pay Us a \$5,000 Relocation Fee. Any request to relocate Your Store will be either approved or denied within 90 days of Our receipt of all relevant information. We may approve the relocation of Your Store in certain limited circumstances, such as loss of the location due to condemnation, eminent domain destruction, or loss of Your right of possession for reasons not caused by You.

If You want to offer catering or delivery service from Your Store, You must obtain Our prior written approval. Any catering or delivery services must meet Our written standards and shall only be conducted in Your Protected Area. You also must charge the same price for products offered by Your Store for any catering or delivery services. All catering or delivery services income must be included in Gross Revenues for purposes of the Royalty Fee and System Fund Fee.

#### Area Development Agreement.

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

Under the Area Development Agreement (“**ADA**”), You are assigned a geographic area (“**Development Area**”) within which You are required to develop three or more Stores under a prescribed development schedule. The size of the Development Area will be described in the ADA by reference to a description, an area marked on a map, streets or highways, political jurisdiction boundaries, by an area encompassed within a radius of a specific distance (or a range of distances) or of a distance sufficient to encompass a specified population (or range of populations) or by such other method of delineation as We may prescribe.

During the term of the ADA, and so long as You are in full compliance with the ADA, We will not establish or license a Store within Your Development Area, however, such territory protection is subject to the **Reserved Rights** identified above ("**Development Area Protection**").

The Development Area Protection will expire upon execution of the last Franchise Agreement required to fulfill the development obligation under the ADA. At that time, each Restaurant under the ADA will retain only the territory protection granted under their respective Franchise Agreement. We are free to franchise and authorize a franchisee to operate, and Our affiliates may develop, lease, manage and operate a Restaurant in the former Development Area.

You must sign Our then-current form of Franchise Agreement for each new Store You develop and operate under an ADA. The then-current form of Franchise Agreement will include Our then-current standards for site selection being used by Us for new franchisees with which You must comply.

If You fail to timely open the minimum number of Stores in compliance with the development schedule as required in the ADA or otherwise commit a material event of default under the ADA, We may, in addition to other remedies, terminate, modify or reduce the Development Area granted to You. We will have full rights to franchise other parties to operate Stores within what was the Development Area, or to operate Stores Ourselves within that Development Area.

If during the term of the ADA, we acquire any other restaurants within Your Development Area with the intention of converting them to stores using Our Marks, You will have a right of first refusal to purchase and convert any of those restaurants during the term of the ADA.

### ITEM 13. TRADEMARKS

You will receive the right to operate a Store under the name PAINTED DOUGH™. You may also use other current or future Marks as We designate to operate Your Store. By Marks, We mean trade names, trademarks, service marks and logos used to identify and operate Your business. The following Mark have been registered on the United States Patent and Trademark Office ("**USPTO**") Principal Register:

| <b><u>MARK</u></b>                                                                  | <b><u>DATE</u></b> | <b><u>REGISTRATION #</u></b> |
|-------------------------------------------------------------------------------------|--------------------|------------------------------|
|  | 7/6/21             | 6407014                      |

Our secondary logo has not yet been registered with the USPTO:



The above marks are owned by Company, who has granted Us a perpetual license for sole use of the Marks, as part of a written license agreement. All required affidavits have been filed. You must follow Our rules when You use any of the Marks. The license agreement has an indefinite term and can be canceled only by the mutual written consent of both parties.

You may not use any of the Marks alone or with modifying words, designs or symbols as part of a corporate name or in any form on the Internet, including, but not limited to URLs, domain names, email addresses, locators, links, metatags or search techniques except as We license to You. You may not use any of the Marks in connection with the sale of an unauthorized product or service or in a manner not authorized by us in writing. Guidelines regarding proper trademark use and notices are set forth in the Manual and will be updated from time to time.

No agreement limits Our right to use or franchise the use of the Marks. We do not know of any infringing uses that could materially affect Your use of the Marks. There are no currently effective material determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court, and no pending infringement, opposition, or cancellation proceeding, or any pending material litigation, involving the Marks. You must notify Us immediately after learning about an infringement of or challenge to your use of the Marks. We will take the action We think appropriate to protect the integrity and validity of the Marks. We are not required to take any specific action in regard to infringements involving the Marks. We have the sole right to control administrative proceedings or litigation regarding any trademark infringements. We will indemnify You if You are a party to a legal proceeding involving a Mark licensed by Us and used properly by You.

You must modify or discontinue the use of a trademark if We modify or discontinue it. We have the right to modify, add to, or discontinue use of the Marks, or to substitute different Marks. You must promptly comply with any required changes, revisions and/or substitutions, and You will pay all the costs of modifying Your signs, advertising materials, interior graphics and any other items which bear the Marks. You must not contest Our right to the Marks, trade secrets or Store techniques.

## **ITEM 14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

You do not receive the right to use an item covered by a patent or copyright, but You can use the proprietary information in the Manual, training materials, including DVD and CD diskettes, electronic emails, and confidential information. We claim proprietary interest in the trade dress of Stores. Although We have not made a copyright filing for the Manual, training materials, advertising materials and other written materials, We claim a copyright, and the information is proprietary and confidential, and may only be used as provided in the Franchise Agreement. The Manual will remain Our sole property. You must keep the materials in a secure place on the Store premises.

You, Your Designated Operator and Your General Manager may divulge confidential information only to those employees who must have access to it to operate Your Store. The Manual may not be copied, recorded, or otherwise reproduced without Our prior written consent. You agree to keep and respect all confidential information received from Us, and obtain from the Designated Operator, each of Your Store's managers, and other employees an agreement to keep and respect all such confidences. A copy of the employee confidentiality agreement is attached as **Attachment 4 in the Franchise Agreement**.

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

You or Your Designated Manager, who has successfully completed Our training program, must directly supervise, and participate in the actual day-to-day operation of the Your Store. Your Store must at all times have an on-site manager approved by Us and certified as designated in the Manual.

You must take steps necessary to ensure that Your employees preserve good customer relations; render competent, prompt, courteous and knowledgeable service; and are properly trained. You and Your employees must handle all customer complaints, refunds, returns and other adjustments in a manner that will not detract from Our name and goodwill. You will be solely responsible for all employment decisions and functions of the franchised location, including those related to hiring, firing, training, wage and hour requirements, record-keeping, supervision, and discipline of employees.

If You are a legal entity such as a corporation, partnership, or limited liability company, one of Your owners must be approved by Us to be Your full-time representative. All of Your owner(s) must personally guarantee the Franchise Agreement and, if applicable, the Area Development Agreement.

We have the right to approve all owners and any future owners. If You are a legal entity, Your Designated Manager must own at least a 10% equity interest in such entity. Neither You nor Your Designated Manager may have an interest or business relationship with any of Our business competitors. The Area Development Agreement requires You

to designate an **"Authorized Agent"** who will have full authority to act on Your behalf in performing, administering, or amending the Area Development Agreement.

You must attend any annual meeting, convention or conference of franchisees and all meetings related to new products or product preparation procedures, new operational procedures or programs, training, management, sales or sales promotion or similar topics that we offer, at your own expense. You are responsible for all related travel and living expenses associated with attending any additional meetings, conventions, or conferences. As of the date of this Disclosure Document, the location, duration, frequency, and content of any additional meetings, conventions, or conferences We require you to attend is unknown and will depend on the frequency with which new products or services are introduced to the System.

#### **ITEM 16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You may offer and sell only those services and products that We have approved for sale in the Stores. You must offer all products and services that We designate as required for all franchisees. These required products and services are described in the Manual. You must obtain Our prior written approval for any other products and services to be sold by Your Store. If We implement customer satisfaction programs for all franchisees, You must participate fully with their requirements as stated in the Manual.

We may change the types of authorized products and services that You must offer from Your Store. There are no limits on Our right to make such changes. All sales must be properly accounted for in Your POS system. If You propose an additional product or service, You must submit it to Us for approval before offering it in Your Store. We may approve it initially for testing only. All proposals approved by Us will become Our property.

**[BALANCE OF PAGE LEFT BLANK INTENTIONALLY]**

## ITEM 17. RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

**This table lists important provisions of the Franchise Agreement. You should read these provisions in the Franchise Agreement attached to this disclosure document.**

### THE FRANCHISE RELATIONSHIP

| Provision                                          | Section   | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|----------------------------------------------------|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. Initial Term                                    | FA: §3.1  | Initial term of Franchise is 10 years.                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| b. Renewal or extension of the term.               | FA: §3.2  | You may renew the franchise for two additional 5-year terms if certain conditions are met. "Renewal" may require You to sign a contract with materially different terms and conditions than Your original contract.                                                                                                                                                                                                                                                             |
| c. Requirements for renewal or extension.          | FA: §3.2  | Conditions include 6-12 months' notice, no defaults during last 12 months, material and timely compliance with Franchise and other agreements during expiring term, satisfied all monetary obligations owed to Us and Your suppliers, completed all required additional training, made all requested changes in operating personnel, modernized the Store and other equipment, payment of renewal fee, and signing of the then-current Franchise Agreement and general release. |
| d. Termination by Franchisee.                      | FA: §15.2 | You may terminate the Franchise Agreement on any grounds available by law.                                                                                                                                                                                                                                                                                                                                                                                                      |
| e. Termination by Us without cause                 | None      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| f. Termination by Us with cause.                   | FA: §15.1 | We can terminate only if You default.                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| g. "Cause" defined as defaults which can be cured. | FA: §15.1 | You have 30 days after notice to cure defaults (except defaults in payment to Us, in which case You only have five (5) days to cure after notice). Includes defaults in other Franchise Agreements with Us. No cure period for same default repeated twice within any twelve-month period. This provision is subject to applicable state law                                                                                                                                    |

|                                                                                         |                        |                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------------------------------------------------------------------|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| h. "Cause" defined as defaults which cannot be cured.                                   | FA: §15.1              | Non-curable defaults: Failure to open in specified time period, failure to complete training or allow inspection, bankruptcy or similar action, loss of possession, material misrepresentation in obtaining franchise, violation of health and safety laws, conviction of crime involving moral turpitude, failure to obtain consent to transfer rights or failure to offer first right of refusal. |
| i. Obligations on termination.                                                          | FA: §15.3              | Immediate obligations include no more use of telephone numbers, trademarks or proprietary information; delete or assign to Us telephone listings, websites and social media pages, remove all Marks; return Our Operations Manuals; and de-identify the Store.                                                                                                                                      |
| j. Assignment of contract by Us.                                                        | FA: §13.8              | No restriction on Our right to assign.                                                                                                                                                                                                                                                                                                                                                              |
| k. "Transfer" by You-definition                                                         | FA: §13.5              | Includes transfer of rights under Franchise Agreement and ownership change.                                                                                                                                                                                                                                                                                                                         |
| l. Our approval of transfer by franchisee.                                              | FA: §13.3              | We have the right to approve all third-party transfers but will not unreasonably withhold approval.                                                                                                                                                                                                                                                                                                 |
| m. Conditions for Our approval of transfer.                                             | FA: §§13.4, 13.5, 13.6 | No default, assets of the Store in standard condition, payment of all amounts owed to Us and Affiliates, payment of transfer fee, transferee qualifies and passes training, current Franchise Agreement signed by transferee, and release and non-competition agreement signed by You.                                                                                                              |
| n. Our right of first refusal to acquire your business.                                 | FA: §13.7              | We can match any offer for the franchised business.                                                                                                                                                                                                                                                                                                                                                 |
| o. Our option to purchase your business                                                 | None                   |                                                                                                                                                                                                                                                                                                                                                                                                     |
| p. Your death or disability.                                                            | FA: §13.6              | Approval by Us of heir or sale within six months to an approved buyer.                                                                                                                                                                                                                                                                                                                              |
| q. Non-competition covenants during the term of the franchise.                          | FA: §4.9               | No interest in a business offering the same or similar services or goods to those sold in a PAINTED DOUGH Store business ("Similar Business").                                                                                                                                                                                                                                                      |
| r. Non-competition covenants after the franchise is terminated, transferred or expires. | FA: §4.9               | No interest in any Similar Business for 2 years within 10 miles of any Store in U.S. or Canada.                                                                                                                                                                                                                                                                                                     |

|                                                    |            |                                                                                                                                                                                                                                                                              |
|----------------------------------------------------|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| s. Modification of the agreement.                  | FA: §16.14 | Only written and signed modifications, but Operations Manual subject to change.                                                                                                                                                                                              |
| t. Integration/ merger clause.                     | FA: §16.13 | The agreement between the parties is limited to the agreement and other documents referred to therein. Any representations or promises outside of the disclosure document and Franchise Agreement may not be enforceable. This provision is subject to applicable state law. |
| u. Dispute resolution by arbitration or mediation. | FA: §16.5  | Except for certain claims, all disputes must be arbitrated in the county where Our headquarters are located ("Home County"), currently San Bernardino County, California. These provisions may be subject to applicable state law.                                           |
| v. Choice of forum                                 | FA: §16.5  | Except for injunctions, any mediation, arbitration, or litigation must be in Home County. These provisions may be subject to applicable state law.                                                                                                                           |
| w. Choice of Law.                                  | FA: §16.7  | Law where Your Store is located.                                                                                                                                                                                                                                             |

**[BALANCE OF PAGE LEFT BLANK INTENTIONALLY]**

**This table lists important provisions of the Area Development Agreement (“ADA”). You should read these provisions in the ADA attached to this disclosure document.**

### **THE FRANCHISE RELATIONSHIP**

| <b>Provision</b>                                      | <b>Section</b>  | <b>Summary</b>                                                                                                                                   |
|-------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| a. Initial Term                                       | ADA: §6         | Initial term is mutually agreed between You and Us.                                                                                              |
| b. Renewal or extension of the term.                  | ADA: §6         | None                                                                                                                                             |
| c. Requirements for renewal or extension.             | ADA: §6         | None                                                                                                                                             |
| d. Termination by Franchisee.                         | Not applicable  | You may terminate the Franchise Agreement on any grounds available by law.                                                                       |
| e. Termination by Us without cause                    | None            |                                                                                                                                                  |
| f. Termination by Us with cause.                      | ADA: §7         | We can terminate only if you default under your Franchise Agreement                                                                              |
| g. "Cause" defined as defaults which can be cured.    | ADA: §§7.2, 7.3 | You have 5 days to cure non-payment of fees and 30 days to cure defaults not listed in Section 7.1                                               |
| h. "Cause" defined as defaults which cannot be cured. | ADA: §7.1       | Non-curable defaults: Failure to meet deadlines in Development Schedule; bankruptcy; insolvency; seizure or foreclosure by a governmental agency |
| i. Obligations on termination.                        | ADA: §7.4       | No further rights; confidentiality, return of Manuals                                                                                            |
| j. Assignment of contract by Us.                      | ADA: §1.6       | No restriction on Our right to assign.                                                                                                           |
| k. "Transfer" by You-definition                       | ADA: §1.5       | No transfers allowed.                                                                                                                            |
| l. Our approval of transfer by franchisee.            | ADA: §1.5       | No transfers allowed.                                                                                                                            |
| m. Conditions for Our approval of transfer.           | ADA: §1.5       | No transfers allowed.                                                                                                                            |
| <b>Provision</b>                                      | <b>Section</b>  | <b>Summary</b>                                                                                                                                   |

|                                                                                          |            |                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------------|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| n. Our right of first refusal to acquire your business.                                  | None       |                                                                                                                                                                                                                                                                                     |
| o. Our option to purchase your business                                                  | None       |                                                                                                                                                                                                                                                                                     |
| p. Your death or disability.                                                             | None       |                                                                                                                                                                                                                                                                                     |
| q. Non-competition covenants during the term of the franchise.                           | ADA: §8.8  | No Competitive Interest in a business similar to or competitive with a PAINTED DOUGH business.                                                                                                                                                                                      |
| r. Non-competition covenants after the franchise is terminated, transferred, or expires. | ADA: §8.9  | No Competitive Interest in a business similar to or competitive with a PAINTED DOUGH business for two years that is located in Territory, within 10 miles of Territory or 10 miles from a Painted Dough Outlet.                                                                     |
| s. Modification of the agreement.                                                        | ADA: §9.10 | Only written and signed modifications.                                                                                                                                                                                                                                              |
| t. Integration/ merger clause.                                                           | ADA: §9.10 | The agreement between the parties is limited to the agreement and other documents referred to therein. Any representations or promises outside of the disclosure document and Area Development Agreement may not be enforceable. This provision is subject to applicable state law. |
| u. Dispute resolution by arbitration or mediation.                                       | ADA: §9.5  | Except for certain claims, all disputes must be arbitrated in the county where Our headquarters are located (" <b>Home County</b> "), currently San Bernardino County, California.                                                                                                  |
| v. Choice of forum                                                                       | ADA: §9.5  | Except for injunctions, any arbitration or litigation must be in Home County. This provision may be subject to applicable state law                                                                                                                                                 |
| w. Choice of Law.                                                                        | ADA: §9.7  | Law where majority of Your Development Territory is located.                                                                                                                                                                                                                        |

## ITEM 18. PUBLIC FIGURES

We do not use any public figure to promote Our franchises, but We may do so in the future.

## **ITEM 19. FINANCIAL PERFORMANCE REPRESENTATIONS**

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

### **SALES AND COST TABLE (Financial Performance Representation)**

This financial performance information has been prepared in accordance with generally accepted accounting principles. Written substantiation of the financial performance representation will be made available to prospective franchisees upon reasonable request. You should conduct an independent investigation of the costs and expenses You will incur in operating Your franchised business.

At the end of December 31, 2023, there was one Store owned by Our affiliate, Painted Dough, Inc. ("Company Store") and is similar to the franchise being offered to You. It opened in January 2016 and is located in Chino, California. The Company Store was open throughout the twelve-month period ending December 31, 2023 ("Operating Period").

The amounts included in the Table are based on the results during the Operating Period and have been adjusted to omit non-recurring, extraordinary expenses which are not reflective of or relevant to the ongoing cost of franchisee operations. The purpose of this Table is to reflect the costs and expenses that a Store would incur if operated by a Franchisee under the current Franchise Agreement

The information in the Table below is based on unaudited sales and profit and loss statements for the Company Store and prepared in accordance with Generally Accepted Accounting Principles. Substantiation of the information contained within will be made available to prospective franchisees upon reasonable request.

Actual operating amounts from Our affiliate's financial records were used, but certain costs have been adjusted to take out items associated with an Affiliate-operated Store vs. a Franchise-owned and operated Store. The operating amounts have been adjusted to omit non-recurring, extraordinary expenses which are not reflective of or relevant to the ongoing cost of franchisee operations. For purposes of comparison, this Table includes the hypothetical costs of Franchise Royalty and Local Marketing Commitment percentages as are specified in the current Franchise Agreement.

## COMPANY STORE

### STATEMENT OF REVENUE AND EXPENSE YEAR ENDED DECEMBER 31, 2023 (1)(2)(3)

|                                 |  | Amount                | % of Sales     |
|---------------------------------|--|-----------------------|----------------|
| <b>Adjusted Gross Sales</b>     |  | <b>\$1,053,141.59</b> | <b>100.00%</b> |
| Cost of Food Purchases          |  | \$273,315.58          | 25.95%         |
| Cost of Store Supplies          |  | \$79,595.31           | 7.56%          |
| <b>Gross Profit</b>             |  | <b>\$700,230.70</b>   | <b>66.49%</b>  |
| <b>Operating Expenses</b>       |  |                       |                |
| Payroll and Expenses (4)        |  | \$265,331.78          | 25.19%         |
| Rent Expense (5)                |  | \$42,001.00           | 3.99%          |
| Utilities                       |  | \$28,312.50           | 2.69%          |
| Other Operating Expenses (6)    |  | \$23,880.00           | 2.27%          |
| <b>Total Operating Expenses</b> |  | <b>\$359,525.28</b>   | <b>34.14%</b>  |
| <b>Net Income</b>               |  | <b>\$340,705.42</b>   | <b>32.35%</b>  |
| <b>Franchise Expenses</b>       |  |                       |                |
| Less Franchise Royalty (7)      |  | \$52,657.00           | 5.0%           |
| Less Local Marketing (7)        |  | \$31,594.25           | 3.0%           |
| *Less System Marketing Fund (7) |  | \$15,797.00           | 1.5%           |
| <b>Adjusted Net Income</b>      |  | <b>\$251,188.42</b>   | <b>23.85%</b>  |

\*Not yet established. See Note 7.

## **FOOTNOTES WITH BASES AND ASSUMPTIONS:**

- (1) Definitions:
- Adjusted Gross Sales is revenue minus refunds and chargebacks.
  - Gross Profit is Adjusted Gross Sales minus Cost of Sales.
  - Net Income is earnings before interest, taxes, depreciation and amortization.
  - Adjusted Net Income includes a provision for franchise royalty and advertising obligations.
- (2) Actual operating amounts from Our affiliate's financial records were used, but certain costs have been adjusted to take out items associated with an Affiliate-operated Store vs. a Franchise-owned and operated Store. The operating amounts have been adjusted to omit non-recurring, extraordinary expenses which are not reflective of or relevant to the ongoing cost of franchisee operations.
- (3) Company Store opened in January 2016 and is located in a suburban area of Chino, California. The Store's has 1,600 square feet and is than a typical franchised location. The location of Your Store may be in a less populated urban or suburban area than the Company Store above and may have an impact on the level of sales Your Store may reach. Additionally, Your Store may be first PAINTED DOUGH Store in Your area.
- (4) Labor typically includes the salaries of one General Manager, one Assistant Manager, plus wages for its hourly employees. Payroll taxes, workers compensation insurance, and employee health insurance are included. Labor costs vary substantially for different reasons and different areas. You should consider carefully the labor costs for Your area. Other labor-related expenses, such as union activity, workers compensation and health insurance in your area, should be included in Your analysis.
- (5) Rent and CAM (Common Area Maintenance) charges are calculated based upon actual rents for this Store. You should consider rent levels in the area where Your Store will be located, and correlate the information in this table, such as the percentages, with the local rent information.
- (6) Other Operating Expenses includes the following:
- |                       |                               |
|-----------------------|-------------------------------|
| Repairs & Maintenance | Property Taxes                |
| Bank Fees             | Licenses & Permits            |
| Travel and Auto       | Bank & Credit Card servicing  |
| Contract Services     | Training                      |
| Repairs & Maintenance | Computer & Internet Equipment |
| Uniforms              | Insurance Expenses            |
| Store/Office Supplies | Laundry                       |
| Employee discounts    | Smallwares                    |

**FOOTNOTES WITH BASES AND ASSUMPTIONS:**

- (7) The Tables includes the Royalty (5%), Local Marketing (3%) and a Brand Fund Fee (1.5%) which a Franchisee would pay for this Center.

\*The System Brand Fund is not yet established, and payments will not be required until We determine that establishing the Brand Fund is appropriate for the System.

**Some Outlets have earned this amount. Your individual results may differ.  
There is no assurance that You'll earn as much.**

Other than the preceding financial performance representation, We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised Stores. We also do not authorize Our employees or representatives to make any such representation either orally or in writing.

**[BALANCE OF PAGE LEFT BLANK INTENTIONALLY]**

## ITEM 20: STORES AND FRANCHISEE INFORMATION

**Table No. 1**  
**SYSTEM WIDE STORES SUMMARY**  
**For Fiscal Years 2021 to 2023**

| Column 1<br>Outlet Type | Column 2<br>Year | Column 3<br>Outlets at the<br>Start of the<br>Year | Column 4<br>Outlets at the<br>End of the<br>Year | Column 5<br>Net Change |
|-------------------------|------------------|----------------------------------------------------|--------------------------------------------------|------------------------|
| Franchised              | 2021             | 0                                                  | 0                                                | 0                      |
|                         | 2022             | 0                                                  | 0                                                | 0                      |
|                         | 2023             | 0                                                  | 0                                                | 0                      |
| Company-<br>Owned       | 2021             | 1                                                  | 1                                                | 0                      |
|                         | 2022             | 1                                                  | 1                                                | 0                      |
|                         | 2023             | 1                                                  | 1                                                | 0                      |
| Total Outlets           | 2021             | 1                                                  | 1                                                | 0                      |
|                         | 2022             | 1                                                  | 1                                                | 0                      |
|                         | 2023             | 1                                                  | 1                                                | 0                      |

Our fiscal year end is December 31<sup>st</sup>.

**Table No. 2**  
**TRANSFERS OF STORES FROM FRANCHISEES TO NEW OWNERS**  
**(OTHER THAN THE FRANCHISOR)**  
**For Fiscal Years 2021 to 2023**

| Column 1<br>State | Column 2<br>Year | Column 3<br>Number of<br>Transfers |
|-------------------|------------------|------------------------------------|
| California        | 2021             | 0                                  |
|                   | 2022             | 0                                  |
|                   | 2023             | 0                                  |
| Total             | 2021             | 0                                  |
|                   | 2022             | 0                                  |
|                   | 2023             | 0                                  |

**Table No. 3**  
**STATUS OF FRANCHISED STORES**  
**For Fiscal Years 2021 to 2023**

| Column 1<br>State | Column 2<br>Year | Column 3<br>Outlets at Start of Year | Column 4<br>Outlets Opened | Column 5<br>Terminations | Column 6<br>Non-Renewals | Column 7<br>Reacquired by Franchisor | Column 8<br>Ceased Operations - Other Reasons | Column 9<br>Outlets at End of the Year |
|-------------------|------------------|--------------------------------------|----------------------------|--------------------------|--------------------------|--------------------------------------|-----------------------------------------------|----------------------------------------|
| California        | 2021             | 0                                    | 0                          | 0                        | 0                        | 0                                    | 0                                             | 0                                      |
|                   | 2022             | 0                                    | 0                          | 0                        | 0                        | 0                                    | 0                                             | 0                                      |
|                   | 2023             | 0                                    | 0                          | 0                        | 0                        | 0                                    | 0                                             | 0                                      |
| Total             | 2021             | 0                                    | 0                          | 0                        | 0                        | 0                                    | 0                                             | 0                                      |
|                   | 2022             | 0                                    | 0                          | 0                        | 0                        | 0                                    | 0                                             | 0                                      |
|                   | 2023             | 0                                    | 0                          | 0                        | 0                        | 0                                    | 0                                             | 0                                      |

**Table No. 4**  
**STATUS OF COMPANY STORES**  
**For Fiscal Years 2021 to 2023**

| Column 1<br>State | Column 2<br>Year | Column 3<br>Outlets at Start of Year | Column 4<br>Outlets Opened | Column 5<br>Outlets Reacquired from Franchisees | Column 6<br>Outlets Closed | Column 7<br>Outlets Sold to Franchisees | Column 8<br>Outlets at End of the Year |
|-------------------|------------------|--------------------------------------|----------------------------|-------------------------------------------------|----------------------------|-----------------------------------------|----------------------------------------|
| California        | 2021             | 1                                    | 0                          | 0                                               | 0                          | 0                                       | 1                                      |
|                   | 2022             | 1                                    | 0                          | 0                                               | 0                          | 0                                       | 1                                      |
|                   | 2023             | 1                                    | 0                          | 0                                               | 0                          | 0                                       | 1                                      |
| Total             | 2021             | 1                                    | 0                          | 0                                               | 0                          | 0                                       | 1                                      |
|                   | 2022             | 1                                    | 0                          | 0                                               | 0                          | 0                                       | 1                                      |
|                   | 2023             | 1                                    | 0                          | 0                                               | 0                          | 0                                       | 1                                      |

“Company-owned Stores” shown in these tables are operated by Company which Our owner control.

**Table No. 5  
PROJECTED OPENINGS  
AS OF DECEMBER 31, 2023**

| <b>Column 1<br/>State</b> | <b>Column 2<br/>Franchise<br/>Agreements Signed<br/>But Outlet Not<br/>Opened</b> | <b>Column 3<br/>Projected New<br/>Franchised Outlets<br/>in the Current<br/>Fiscal Year</b> | <b>Column 4<br/>Projected New<br/>Company-Owned<br/>Outlets in the<br/>Current Fiscal Year</b> |
|---------------------------|-----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| California                | 0                                                                                 | 1                                                                                           | 0                                                                                              |
| Total                     | 0                                                                                 | 1                                                                                           | 0                                                                                              |

We do not have any current or former franchisees. During the last three fiscal years, We have signed no settlement agreements containing confidentiality clauses with current or former franchisees. You should be aware that We are required by law to disclose Your contact information to other franchise purchasers if You become a franchisee or leave Our franchise system. We have not created, sponsored, or endorsed any trademark-specific franchisee organization associated with Our System and no such association has asked to be included in this disclosure document.

## **ITEM 21. FINANCIAL STATEMENTS**

Our audited financial statement dated December 31, 2023 is attached as **Exhibit F**. Our fiscal year end is December 31<sup>st</sup>.

## **ITEM 22. CONTRACTS**

Copies of the following agreements are attached:

- A. Franchise Agreement with Exhibits
- B. Area Development Agreement

## **ITEM 23. RECEIPTS**

You will find copies of a detachable receipt in **Exhibit G** at the very end of this disclosure document. It is important that you sign, date, and return a Receipt to Us. As noted on the cover page, this Disclosure Document is available in electronic format, in which case You must print a copy of the Receipt and send a signed and dated copy to Us. Thank you. The name, principal business address and telephone number of each franchise seller offering the franchise are identified on the Receipts.

# Exhibit

## A



# **PAINTED DOUGH FRANCHISE AGREEMENT**

# FRANCHISE AGREEMENT

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## SUMMARY OF SPECIFIC TERMS

Franchisee Entity: \_\_\_\_\_

Names of Principals: \_\_\_\_\_

Type of Your legal entity:    ☐ Corporation                      ☐ Limited Liability Company ("LLC")

State: \_\_\_\_\_

Section 1.1:                      Your Outlet Number: \_\_\_\_\_

Address: \_\_\_\_\_

Section 1.2:                      Protected Area:                      3 miles unless High Density Area

Section 2.1 (a):                      Initial Franchise Fee:                      \$30,000

Section 2.1(d)                      Opening Assistance Fee:                      \$5,000

Section 2.1 (b):                      Royalty Fee:                      5% of Gross Revenue, weekly

Section 3.2 (a):                      Renewals:                      Two additional 5-year terms

Section 3.2 (i):                      Renewal Fee:                      25% of then current Initial Franchise Fee

Section 4.2:                      Designated Operator:                      \_\_\_\_\_

Section 7.2:                      Local Advertising Fee:                      3% of Gross Revenue or \$2,000, whichever is greater, weekly

Section 7.3:                      System Brand Fund Fee:                      up to 1.5% of Gross Revenue, weekly  
(not yet established)

Section 7.8:                      Grand Opening:                      \$5,000

Section 13.2:                      Authorized Agent:                      \_\_\_\_\_

Section 13.5:                      Transfer Fee:                      25% of then-current Initial Franchise Fee

Section 16.5(a):                      Venue: Home County:                      San Bernardino County, California

Section 16.8:                      Your Address for Notice:                      \_\_\_\_\_

Attachment 1                      High Density Area?                      ☐ Yes                      ☐ No

Your Initials: \_\_\_\_\_

Our Initials: \_\_\_\_\_

## PAINTED DOUGH FRANCHISE AGREEMENT

THIS AGREEMENT dated as of \_\_\_\_\_ 202\_\_ (“**Effective Date**”) is between \_\_\_\_\_, a California limited liability company (“**We**”, “**Us**” or “**Our**”), and \_\_\_\_\_ (“**You**” or “**Your**”), and the Principals identified on the signature page of this Agreement (“**Principals**”). Terms in boldface in this Agreement are for ease of reference only.

See SUMMARY OF SPECIFIC TERMS attached hereto and incorporated herein by reference.

A. We own the exclusive rights to offer and sell franchises for the operation of unique retail food and beverage outlets using the name and trademarks PAINTED DOUGH™ and other trademarks (“**Marks**”) and following a system of operation (“**System**”) to operate a chain of these outlets (“**Outlets**”) which was developed and used by Us and Our affiliated companies (collectively, the “**Company**”).

B. You desire to purchase a PAINTED DOUGH franchise (“**Franchise**”) on the terms of the SUMMARY attached hereto and to operate and market a PAINTED DOUGH Outlet, and We have approved You for a Franchise.

THEREFORE, in consideration of the mutual promises contained in this Agreement, the parties hereby agree as follows:

### ARTICLE 1: GRANT OF FRANCHISE

#### 1.1 Grant.

Subject to the following terms and conditions, We grant to You a non-exclusive Franchise to use the System and the Marks solely in direct connection with the sale of products and services from an Outlet to be operated by You from the address specified in the SUMMARY (“**Your Outlet**”). You may not engage in catering and delivery services unless We authorize You in writing and as specified in Section 1.2 (d).

#### 1.2 Territorial Rights.

(a) We agree that unless Your Outlet is in a “**high density area**” (as defined below), We will not operate and will not authorize any other person to operate an Outlet within two (2) miles from the current front door of Your Outlet except one or more “**Non-traditional Venue**” Outlets defined in subsection (iv) below or any “**Merger/Acquisition Activity**” defined in subsection (v) below (“**Protected Area**”).

(b) Except for the foregoing, You and We agree that this Franchise is non-exclusive, and We reserve all other rights, including the right, directly or indirectly:

(i) To operate, and authorize others to operate, PAINTED DOUGH Outlets at any location and of any type or category whatsoever outside the Protected Area;

(ii) To operate, and authorize others to operate a business under any name *other than* PAINTED DOUGH, at any location and of any type or category whatsoever;

(iii) To produce, license, distribute and market products and services using the Marks or other marks through any business anywhere and through any established distribution channel, at wholesale or retail, including by means of the Internet (or any other existing or future form of electronic commerce), mail order catalogs, direct mail advertising and other distribution methods. Other distribution channels or methods include, without limitation, grocery stores, club stores, convenience stores, military installations, or industry locations (e.g. manufacturing site, office building). We are not required to pay You for soliciting or accepting orders from inside Your Protected Area;

(iv) To operate, and to authorize others to operate, an Outlet at a Non-Traditional Venue near or within the Protected Area. **“Non-Traditional Venue”** means a site or location for which the lessor, owner or operator thereof has indicated its intent to limit the operation of facilities to itself or a master concessionaire and which site or location is either (A) within another primary business or (B) at an institutional setting such as a school, college, university, governmental facility, hospital, hotel, limited access highway, shopping mall, airport, toll road, sports arena or stadium; and

(v) To merge with, acquire or become associated with (**“Merger/Acquisition Activity”**) any businesses or restaurants of any kind under other systems and/or other marks, which businesses and restaurants may convert to or operate under the Marks and may offer or sell menu items, products and services that are the same as or similar to an Outlet (**“Converted Outlets”**), and such Converted Outlets may be located anywhere inside or outside of Your Protected Area.

(c) A **“high density area”**, to be determined by Us in Our full discretion, is typically an area with a high degree of pedestrian traffic such as a downtown portion of an urban area with high-rise commercial buildings or a densely populated residential area with primarily multi-family or apartment units. If We determine that Your Outlet is located within a “high density area”, any territorial rights will be stated in **Attachment 1** to this Agreement.

(d) If You want to offer catering or delivery service from Your Outlet, You must obtain Our prior written approval. Any catering or delivery services must meet Our written standards and shall only be conducted in Your Protected Area. You also must charge the same price for products offered by Your Outlet for any catering or delivery services. All catering or delivery services income must be included in Gross Revenues for purposes of the Royalty Fee and System Fund Fee.

### 1.3 Site; Relocation

(a) Site Selection. You must select a site that meets Our approval and follow the procedures set forth in Our Manual. We will provide You with site selection guidelines and assistance that We consider necessary and appropriate. You agree (i) that although We may have been involved in the site selection process for Your Outlet and approved its location, You have sole responsibility for selecting the above location for Your Outlet and (ii) that We make no warranty, representation, or guaranty of any kind with respect to Your Outlet's location, success or profitability.

(b) Site Approval. You must locate and obtain Our approval for the site of Your Outlet within three (3) months of executing this Agreement. If You have not done so, We will grant You an extension so long as We are satisfied that you are proceeding in good faith and with due diligence.

(c) Relocation. You will not relocate Your Outlet without Our prior written consent. We will consent to a relocation to an alternative, pre-approved location under limited circumstances only, such as loss of the location due to condemnation, eminent domain destruction, loss of Your right of possession for reasons not caused by You, or a very substantial and detrimental change in the business potential and character of the location. If We consent to the relocation of Your Outlet, You must comply with such reasonable site selection and construction procedures as We may require. You must conduct a Grand Opening Promotion as required by Section 7.8 below. You will be solely responsible for the expense of any such relocation and will pay Us a reasonable fee for Our services in connection with such relocation, currently \$5,000. You will be fully responsible for closing the existing location and must comply with Section 15.3 below regarding de-identification.

### 1.4 Acquisition of Premises

(a) Before You make a binding commitment to purchase, lease or sublease a site, We must approve the location in writing and approve in writing the proposed lease or purchase agreement or any letter of intent between You and the third-party seller or lessor.

(b) If Your Outlet premises are to be leased, You must execute a lease within six (6) months of executing this Agreement. You agree to provide Us for Our review and comment a copy of the proposed lease at least thirty (30) days prior to its being finalized and executed. Unless We waive the requirement in writing, You must arrange for the

execution of the Lease Addendum in the form attached hereto as **Attachment 2** and any other provisions that We may reasonably require. You must provide Us a copy of the executed lease and Lease Addendum within five (5) days of execution.

(c) You are required to retain Our approved vendor for the review of Your lease when You enter into a letter of intent for Your approved site. The current costs and procedures are set forth in the Manual. If the landlord requires Us to negotiate the Lease Addendum, We reserve the right to charge You a fee, which will not exceed Our actual costs associated with the negotiation. We have no responsibility for the lease, it is Your sole responsibility to evaluate, negotiate and enter into the lease for the Outlet premises.

## 1.5 Construction

(a) You agree to construct and equip Your Outlet in accordance with all of Our standards, policies, and procedures at such time, and be in strict compliance with Our deadlines as stated in the Manual or other written communications from Us, including the following:

(i) You must obtain any and all permits and licenses, architectural, engineering, design, construction, and other services necessary for the construction of Your Outlet, all at Your expense. You must adapt Our prototypical architectural and design plans and specifications for an Outlet as necessary for the construction of Your Outlet. You will be responsible for all of the costs of such work. Except as may be expressly provided in the Manual, no changes of any kind in design, equipment or decor will be made in, on or about Your Outlet premises without Our prior written approval in each instance.

(ii) Prior to commencement of construction, You must provide Us for Our review and approval all design and construction documents ("**Plans**"). You will provide Us a copy of the Plans to review and approve no later than sixty days (60) days after obtaining possession of the site for Your Outlet. You must promptly implement any changes requested by Us and revise Plans to Us for approval prior to commencement of construction. You must promptly implement any changes requested by Us and revise Plans to Us for approval prior to commencement of construction. Any revision to the approved Plans must be submitted to Us for review and approval prior to the implementation of such modification.

(iii) You acknowledge that Our review of the Plans is only for the purpose of determining compliance with System standards. Our approval of such Plans does not constitute a representation, warranty, or guarantee, express or implied, that such Plans are accurate or free of error concerning their structural application. We will not be responsible for (A) architecture or engineering requirements (B) for any applicable code, zoning, or other requirements of federal, state, local or municipal statutes, ordinances or regulations including, without limitation, any requirement relating to accessibility by disabled persons or others, or (C) any errors, omissions, or discrepancies of any nature in the Plans.

(b) You must promptly commence and diligently pursue construction of Your Outlet using a General Contractor that meets Our General Contractor criteria and has been approved by Us.

(c) During construction, You agree to provide Us with such periodic progress reports as We may reasonably request from time to time. In addition, We may make such on-site inspections as We may deem reasonably necessary to evaluate Your progress.

(d) You agree to notify us of the scheduled date for completion of construction no later than ninety (90) days prior to such date. You must confirm, or notify us of any changes to, the scheduled construction completion date forty-five (45) days prior to such date. Within a reasonable time after the date construction is completed, We may, at Our option, conduct an inspection of the completed Outlet. If You do not pass the inspection of Your Outlet, You must pay for the costs and expenses incurred to re-inspect Your Outlet. You must not open Your Outlet for business without Our written authorization and Certificate of Opening.

#### 1.6 Opening Date

You must complete construction and open Your Outlet for business within twelve (12) months following the Effective Date of this Agreement unless We grant You an extension in writing. You may not open Your Outlet without Our prior written consent and satisfaction of all pre-opening obligations and the installation of all equipment, fixtures, furnishings and signs included in the plans and specifications approved by Us. Your failure to open the Outlet in full compliance with these provisions will be a material event of default under this Agreement, and We may prevent You from opening Your Outlet.

### ARTICLE 2: FEES

#### 2.1 Fees

You agree to pay Us:

(a) A non-refundable "**Initial Franchise Fee**" in the amount specified in the SUMMARY; which must have been paid in full upon execution of this Agreement;

(b) A monthly "**Royalty Fee**" in the amount specified in the SUMMARY as payment or the continuing right to use the System and Marks in accordance with this Agreement, and not in exchange for services rendered by Us;

(c) Once established, a monthly "**System Marketing Fund Fee**" in the amount specified in the SUMMARY to be applied as described in Section 7.3 below; and

(a) An Opening Assistance Fee in the amount specified in the SUMMARY. You must pay the Opening Assistance Fee in full upon execution of this Agreement.

## 2.2 No Fees Refundable

You agree that these Fees are not refundable in whole or part under any circumstances and have been fully earned by Us by the grant of this franchise.

## 2.3 Payment of Fees

(a) All Fees are due to Us at the times and in the manner that We specify from time to time in the Manual or otherwise. We currently require payment of the Royalty Fee and System Marketing Fund Fee (once established) no later than the third (3<sup>rd</sup>) day following the end of each week. If this deadline is a legal holiday where Your Outlet is located, payment must be made on the next business day. You must make payments in strict accordance with Our requirements, including EFT payments as described below. TIME IS OF THE ESSENCE regarding payment of such Fees.

(b) You agree to pay all such Fees to Us by direct transfer of funds ("**EFT**") or other method of payment designated by Us. Such method of payment will be determined by Us in Our sole discretion and may be changed from time to time.

(c) You agree at Our request to furnish the information, execute forms, make arrangements and complete procedures as are reasonably necessary to establish direct EFT payments automatically from Your account(s) to the account(s) We may designate in order to pay directly such Fees within each payment period. Without limiting the foregoing, You specifically agree to obtain the necessary equipment used by the System to transmit sales and other polling information which will allow Us to cause such transfers to be made and You are required to give Us access to such equipment as set forth in Section 8. You further agree to maintain sufficient funds in Your account(s) to allow timely honoring of each payment to Us by Your bank or other financial institution. You hereby specifically authorize Us to make such direct transfers of the Fees so long as such transfers are limited to amounts computed with reference to sales information furnished by You, or if You fail to furnish such information, with reference to good faith estimates by Us.

(d) All fees due under this Agreement which are not paid when due will bear interest from and after their respective due dates at the rate of eighteen percent (18%) per annum or the highest rate permitted by law, whichever is less. Any late payment of such Fees will be accompanied by a late payment administrative charge of \$250.00.

## 2.4 Gross Revenues

The term "**Gross Revenues**" as used in this Agreement will mean the total of all cash or other form of payment received for the use of the Outlet and sales of products and services in or from the Outlet, including food, drinks, clothing and other tangible property of every kind, or for entertainment charges, made or sold at, in, upon or from Your Outlet and from any vending, game or other type of machine or similar device located at Your Outlet; and any and all other amounts which are received as

compensation for any services rendered from Your Outlet including catering and delivery services. All amounts collected and paid out for sales taxes, selling, or issuing system gift or loyalty cards, and the proceeds from the sale of any furniture, fixtures or equipment previously used at Your Outlet are excluded from Gross Revenues.

### **ARTICLE 3: TERM; RENEWAL**

#### **3.1 Initial Term**

Subject to earlier termination, this Agreement has an Initial Term of ten (10) years ("**Initial Term**") or the length of Your lease for Your Outlet, whichever is less. The Initial Term will commence the earlier of the date You (a) actually open Your Outlet for business, or (b) are required to open Your Outlet under this Agreement. You agree to send Us written notice of Your Outlet's opening date. You must during the Initial Term have the right to operate Your Outlet at the location specified in Section 1.1 or at an alternative location approved in advance by Us in writing.

#### **3.2 Renewal**

You may renew this Agreement for two additional consecutive five (5) year terms, so long as all of the following conditions have been met before the end of the then current term:

(a) You must give Us written notice of renewal not less than six (6) months or more than twelve (12) months before the end of the current term;

(b) You must not default in any material provision of this Agreement, Area Development Agreement, or any other agreement with Us at any time during the last twelve months of the prior term and must have complied with all material terms and conditions of this Agreement during the current Term;

(c) You must be in good standing as a PAINTED DOUGH Franchisee and be approved by Us operationally and financially;

(d) You must have paid all amounts owed to Us, Our affiliated companies ("**Affiliates**"), and Our approved suppliers (as defined in Section 4.8) and have timely paid all such amounts throughout the current term;

(e) We may send You a written notice of required changes to be made at Your Outlet, such as (i) additional training requirements, (ii) personnel changes and (iii) modernization of Your Outlet and its equipment, and/or redecorating Your Outlet and installing new signs and equipment to reflect the then current PAINTED DOUGH standards and image, in which case You must make all of such changes as and when requested by Us;

(f) You must have obtained an extension or renewal of Your Lease for the Outlet to cover the renewal term and delivered to Us a fully executed of such Lease.

(g) You must execute and deliver to Us Our then-current form of Franchise Agreement to apply to the renewal term, but in no event shall the term be longer than Your right to occupy the Outlet, which Franchise Agreement will contain the then-current Royalty Fee rate and System Marketing Fund Fee amounts required of new franchisees;

(h) You understand and agree that the form You execute may contain different financial terms and a revised description of Your Territory from the prior Franchise Agreement(s);

(i) You must pay Us a “**Renewal Fee**” as specified in the SUMMARY; and

(j) You must execute Our form of a general release of any and all claims against Us, the Company and Our Affiliates, and Our and their officers, directors, agents and employees.

### 3.3 Interim Period.

If You do not exercise Your right to renew this Agreement prior to the expiration of the Agreement, and continue to accept the benefits of this Agreement after the expiration of this Agreement, then at Our option, this Agreement may be treated either as (i) expired as of the date of expiration with You then operating a franchise without the right to do so and in violation of Our rights, or (ii) continued as a month-to-month basis (“Interim Period”) until one party provides the other with written notice of its intent to terminate the Interim Period, in which case the Interim Period will terminate thirty (30) days after receipt of the notice to terminate. In the latter case, all of Your obligations and restrictions shall remain in full force and effect during the Interim Period as if this Agreement had not expired, and all obligations and restrictions imposed on You upon expiration of this Agreement will be deemed to take effect upon termination of the Interim Period.

## ARTICLE 4: OPERATION

### 4.1 Operations Assistance

We will advise and assist You in opening Your Outlet, including periodic visits by Our representative(s), to the extent We deem necessary. In Our sole discretion, We may provide employees (up to two (2)) for such period of time (currently, at least seven (7) days) as We deem appropriate to conduct on-site training before and during the opening of Your Outlet. We may charge Our then current per diem per employee (currently, \$350 per day), plus reasonable travel-related expenses, for on-site training and assistance.

#### 4.2 Designated Operator and Management

(a) The individual named specified in the SUMMARY as the Designated Operator must be an experienced food service operator with multi-unit Outlet supervisory experience, who will devote his or her full time, best efforts, and constant personal attention to the operation of Your Outlet, with full authority to act on Your behalf and on behalf of the Principals with regard to the operation of Your Outlet. Unless You have received Our prior written consent, Your Designated Operator shall not engage in any other business.

(b) The Designated Operator must be at all times approved by Us and certified by Us as fully trained for operations. Certification and approval of the Designated Operator includes both satisfactory completion of Our Initial Training Program, and also working sufficient additional time in a Company-operated Outlet, as We deem necessary in Our sole discretion, to successfully develop and operate a PAINTED DOUGH Outlet. Any change in the identity of Your Designated Operator must be approved by Us in writing.

(c) At all times during the term of this Agreement, You shall employ (i) a full-time General Manager who shall be responsible for overseeing the day-to-day operation of Your Outlet. The General Manager, and any other Managers required by the Manual, must satisfy Our qualifications, and have completed Our Initial Training Program to Our satisfaction. In the event of the resignation, termination, incapacity, or death of any General Manager, You will have a period of thirty (30) days after any such event to complete arrangements for a replacement who satisfies Our qualifications and completes to Our satisfaction the Initial Training Program within sixty (60) days following his or her date of hire.

(d) Any failure to comply with this Section 4.2 will be a material breach of this Agreement.

#### 4.3 Operation of Your Outlet

Unless You have received Our prior written approval to the contrary, You will:

(a) Construct, equip, and operate Your Outlet in accordance with all Our standards, policies, and procedures as may be established from time by Us, as stated in the Manual or other written communications from Us;

(b) Operate Your Outlet in a clean, safe, and orderly manner, providing courteous, first-class service. Keep Your Outlet open for business during the hours specified by Us;

(c) Maintain a competent, conscientious, trained staff and take any and all steps necessary to ensure that Your employees preserve good customer relations and comply with any dress code as may be established from time to time by Us, as stated in the Manual or other written communications from Us;

(d) Comply with all health, safety, and other laws applicable to the operation of Your Outlet, maintain at least a 90%, "A" or better health inspection score, cure any deficiencies immediately after a governmental inspection and request another inspection as soon as possible thereafter;

(e) Consistently maintain Your Outlet and conduct Your Outlet operations in compliance with all applicable laws, regulations, codes, insurance requirements and ordinances. You must secure and maintain in force all required licenses, permits and certificates relating to Your Outlet.

(f) Keep current in all monetary obligations owed Us, Our affiliated companies and Approved Suppliers;

(g) Diligently promote and make every reasonable effort to increase the business of Your Outlet, and participate in all promotional campaigns, special offers, and other programs, which are prescribed from time to time by Us;

(h) Advertise and Operate Your Outlet by the use of the Marks and any other insignia, slogans, emblems, symbols, designs, and other identifying characteristics as may be developed or established from time to time by Us as stated in the Manual or other written communication from Us;

(i) Prevent the use of Your Outlet for any immoral or illegal purpose, or for any other purpose, business activity, use or function which is not expressly authorized by this Agreement or in the Manual;

(j) Obtain and use only the equipment and technology required by the Manual, such as without limitation, a computerized point of sale cash collection system ("**POS System**") which among other things will allow Us to poll information about Your Outlet, credit card and/or debit card system, computer equipment and related software and communications systems;

(k) Never manipulate or tamper with the POS System software without Our prior written approval. Maintain Our full and complete independent access to Your Point of Sale System or other accounting or CRM systems designated by Us;

(l) Not establish or use the Internet or website for Your Outlet or otherwise use the Marks without Our prior written consent. Adhere to any social media policies that We establish require all of Your employees to do so as well; and

(m) Never sell any food or beverage product at Your Outlet that contains any ingredients which were not purchased from a supplier approved by Us or which does not meet Our specifications.

(n) Never disclose the contents of Our Manual and other confidential information (including but not limited to, menu content, recipes and presentation) to any person, except Your employees for purposes related solely to the operation of Your Outlet.

#### 4.4 Confidential Manual

(a) We will give you access to Our Confidential Manual (the “**Manual**”). You agree to comply strictly with and perform all things required by the Manual, such as those dealing with site selection, lease requirements, Outlet design and construction, the selection, purchase, storage, preparation, packaging, service and sale (including menu content, recipes and presentation) of all food and beverage products, maintenance and repair of Your Outlet's buildings, grounds, furnishings, fixtures and equipment, operating hours and days, employee uniforms and dress, accounting, bookkeeping, record retention and other business systems, procedures and operations. You must at all times treat the Manual, and the information it contains, as secret and confidential, and must use all reasonable efforts to maintain such information as secret and confidential.

(b) The Manual, as presently written and as We may in the future amend and supplement them from time to time, is incorporated into and made part of this Agreement by reference. All references to the Manual in this Agreement are to the Manual as most recently revised as of the relevant date and may be in the form of several manuals. The Manual may be in paper form or available in electronic form or a combination of both media. The replacement cost for a Manual is \$500. We reserve the right to change the replacement cost at any time with 30 days written notice.

(c) You agree that the purpose of the Manual is to provide a means of communicating to all Franchisees specific details of Our System which will enhance uniformity and conformity among all Outlets. You specifically agree that the Manual is an integral, necessary, and material element of the System and that it will be necessary for Us, in order to maintain the high quality of the System and maximize its competitive position, to revise and update the Manual from time to time. We have the right at any time and from time to time, in the good faith exercise of Our reasonable business judgment, to revise, delete from and add to the materials contained in the Manual. You expressly agree to comply promptly with all obligations and changes to the Manual.

#### 4.5 Confidentiality; Our Property

(a) You agree that We own all rights in and to the System, including the information and materials described or contained in the Manual, and that the System and Manual contain trade secrets and themselves constitute Our trade secrets which have been or will be revealed to You in confidence. You agree not to disclose, duplicate,

license, sell or reveal any portion thereof to any other person, except an employee of Yours required by his or her work to be familiar with such information.

(b) We will provide You with confidential and proprietary information and trade secrets, whether or not We designate such information as confidential, proprietary or a trade secret. Without Our prior written consent, You shall neither disclose the contents of such information to any person, except Your employees for purposes related solely to the operation of Your Outlet, nor reprint or reproduce such confidential or proprietary information or trade secrets in whole or in part for any purposes. You shall obtain agreements from Your employees prohibiting disclosure of any trade secrets or confidential or proprietary information.

(c) You agree to keep and respect all confidential information received from Us, to obtain from each of Your Outlet's managers and other employees an agreement to keep and respect all such confidences and to be responsible for Your employees' keeping this information confidential. A copy of the employee confidentiality agreement is attached hereto as **Attachment 4**.

(d) You agree to promptly disclose to Us all innovations whether or not protectable and whether created by or for You or Your owners or employees. All such innovations will be deemed our sole and exclusive property. We have the right to incorporate such innovations into the System.

(e) The Manual and all other confidential materials furnished to You are on loan only, will remain Our property, and You will return all copies of such documents to Us immediately upon the expiration or termination of this Agreement.

#### 4.6 Uniformity and Conformity

You agree that strict conformity by You with this Agreement, the System and the Manual, is vitally important to the collective success of all PAINTED DOUGH Outlets, including Your Outlet, because of the benefits You and other PAINTED DOUGH operators will derive from uniformity in menu items, identity, quality, appearance, facilities and service among all PAINTED DOUGH Outlets. Any material failure to adhere to the requirements contained in this Agreement or in the Manual will be considered a material breach of this Agreement.

#### 4.7 Products and Services

You agree to offer for sale from Your Outlet, at all times when Your Outlet is open for business, all of the services and products expressly described in the Manual, unless You have received Our prior written consent to any exception. We have the right to make modifications from time to time, and You agree to comply with any modification. No other service, product or brand other than those identified in the Manual will be offered or sold at or from Your Outlet without Our prior written consent in each case. You agree to submit to Us in writing any additional product, brand or service proposed by You for Us for Our

consideration and final determination before You implement any such change. You agree to buy to the extent required by the Manual any designated products, ingredients or equipment from Us or a designated supplier (which may be an Affiliate). You agree that such ingredients are prepared pursuant to secret, proprietary recipes and/or procedures belonging to Us.

#### 4.8 Approved Suppliers: Proprietary Ingredients

(a) In order to assure uniformity and conformity among Outlets in the System, You agree to purchase all equipment, supplies, and products for sale at Your Outlet only from suppliers who are at that time approved in writing by Us as an approved supplier ("**Approved Supplier**"), which may include Us or one of Our Affiliates. You acknowledge and agree that an Approved Supplier may be the only source for certain items. We and Our Affiliates have and reserve the right to retain 100% of all revenues received through license fees, promotional fees, advertising allowances, rebates or services paid by suppliers and to use them for whatever purposes elected.

(b) If You want to purchase any items from a supplier who is not an Approved Supplier, You will notify Us of such supplier, pay an approval fee and instruct the proposed supplier to contact Us and follow Our procedures for becoming an Approved Supplier. We may charge a reasonable fee for the costs involved in these approval procedures. You understand and agree that at Our discretion any such proposals may be utilized on a test basis only subject to the terms of a written test agreement. Nothing in the foregoing shall be construed to require Us to approve any particular supplier.

#### 4.9 Your Covenants

(a) You agree that PAINTED DOUGH Outlets, including Your Outlet, must compete against similar businesses (as defined below) which may have far greater financial resources and may be better established in the food service industry. For purposes hereof, a "**Similar Business**" is any food service outlet or similar business which primarily offers for sale the same products as offered and sold by PAINTED DOUGH Outlets at that time.

(b) Therefore, You agree on behalf of Yourself and each and every person with an ownership interest in Your Outlet ("**Owner**") to take all necessary action to assure compliance throughout the term of this Agreement with the requirements of this Section 4.9 and the other Sections in this ARTICLE 4, including obtaining and delivering to Us a written agreement from each such person that he or she agrees to each of the covenants set forth in this Section 4.9.

(c) Neither You nor any Owner will, directly or indirectly, engage in or have any interest whatsoever in any Similar Business without Our prior express written consent.

(c) Neither You nor any Owner will perform any services for or become a landlord of any Similar Business without Our prior express written consent.

(d) Neither You nor any Owner will divert or attempt to divert any business or customer of Your Outlet, or of any other PAINTED DOUGH Outlet, to any Similar Business by direct or indirect inducement, advertising or otherwise do or perform, directly or indirectly, any other act which is injurious or prejudicial to the goodwill associated with the System or the value of the Marks.

(e) For a period of two (2) years following the expiration or termination of this Agreement, or after the expiration of any Interim Period, neither You nor any Owner will, directly or indirectly, engage in or have any interest whatsoever in any Similar Business which is located within ten (10) miles of any Outlet or the former Outlet, or at the premises of the former Outlet, without Our prior express written consent. You agree that this length of time will be tolled for any period during which You are in breach of this covenant or any other period during which We seek to enforce this Agreement.

(g) You agree that any violation of this Section 4.9 would result in irreparable injury to Us and the System, and that We would be without an adequate remedy at law. You agree that in the event of a breach or threatened breach of any such covenant, We will not be required to prove actual or threatened damage from such breach in order to obtain a temporary and/or permanent injunction and a decree for specific performance of the terms of this Section 4.9. In addition to injunctive relief, We shall be entitled to any other remedies which We may have under this Agreement, at law or in equity.

(h) The parties agree that each of these covenants will be construed as independent of each other and of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section 4.9 is held unenforceable by a court having valid jurisdiction in a final decision between the parties hereto and from which no appeal has or may be taken, You expressly agree to be bound by the remaining portion of such covenant.

#### 4.10 Employees

You acknowledge that You are an independent business and responsible for control and management of Your Outlet, including but not limited to, employment decisions and related matters. You and You alone will be solely responsible for all hiring and employment decisions and functions relating to Your Outlet, including those related to hiring, firing, training, establishing remuneration, compliance with wage and hour requirements, personnel policies, benefits, recordkeeping, supervision, and discipline of employees, regardless of whether you have received advice from Us on these subjects or not. Any guidance We may give You regarding employment policies should be considered merely examples. You acknowledge that We have no power, responsibility, or liability in respect to the hiring, discharging employees, setting work schedules, maintaining all employment records, and setting and paying of wages or related matters. You will be responsible for establishing and implementing your own employment policies and should do so in consultation with local legal counsel experienced in employment law.

#### 4.11 Online Management and Communication System; Website

(a) We may establish an online management and communication system for Outlet Operations, and You agree to participate and perform all things necessary to set up and connect to the online communication system and comply strictly with its requirements.

(b) We may require You, at Your expense, to participate in Our PAINTED DOUGH website, Our intranet system or extranet system or other online communications. We have the right to determine the content and use of Our website and intranet or extranet system and will establish the rules under which franchisees may or must participate.

(c) You may not separately register any domain name containing any of the Marks, participate in any website or social media platform that markets goods and services similar to a PAINTED DOUGH Outlet, or operate a website for Your Outlet that does not link to Our website. We retain all rights relating to Our website and intranet system and may alter or terminate Our website, extranet system, or intranet system. You acknowledge that certain information related to your participation in our website or intranet system may be considered Confidential Information, including access codes and identification codes.

#### 4.12 Software; Systems

You agree to use in Your Outlet the software designated by Us in the Manual for Franchisees to use for franchise management, online ordering system, making estimates, preparing invoices, keeping accounting records and other aspects of the operations of Your Outlet. The computer software package developed for use in Your Outlet may include proprietary software. You agree to use in Your Outlet an approved online ordering system as designated by Us in the Manual. You may be required to license the proprietary software or application from Us or a third party and You also may be required to pay a software licensing or user fee in connection with Your use of the proprietary software.

#### 4.13 Data Security

You acknowledge and agree that protection of customer privacy and credit card information is necessary to protect the goodwill of businesses operating under the Marks and System. You agree that Your Outlet will comply at all times, with all applicable security standards developed by the Payment Card Industry Data Security Standards (“**PCI DSS**”) council, or its successor, and other regulations and industry standards applicable to the protection of customer privacy and credit card information, including but not limited to the Fair and Accurate Credit Transaction Act (“**FACTA**”) and all other successor or additional laws, and all other data security requirements We prescribe. You will be responsible for any costs and expenses related to compliance with such standards and/or related audits. You must provide Us with evidence of such compliance at Our

request. You also must provide notice to Us of any potential or actual data security breach relating to cardholder data.

#### 4.14 Pricing

To the fullest extent permitted by applicable law at such time, We reserve the right to establish maximum, minimum or other pricing requirements with respect to the prices You may charge for products or services, and You agree to comply with any such requirements.

#### 4.15 Crisis Management.

(a) **“Crisis Management Event”** means any event that occurs at or about Your Outlet premises or in connection with the operation of Your Outlet that has or may cause harm or injury to customers or employees, such as food contamination, food spoilage/poisoning, food tampering/sabotage, contagious diseases, natural disasters, terrorist acts, shootings or other acts of violence, data breaches, real or threatened, or any other circumstance which may materially and adversely affect the System or the goodwill symbolized by the Marks.

(b) Upon the occurrence of a Crisis Management Event, You agree to immediately inform Us of such event and to cooperate fully with Us, Our designated representatives, and the appropriate authorities with respect to the investigation and resolution of the Crisis Management Event. In an effort to mitigate possible damages to the Marks and System, You must cooperate fully with Us with respect to management statements and other responses to the Crisis Management Event.

### **ARTICLE 5: TRAINING**

#### 5.1 Initial Training

We will provide at a place or places designated by Us, Our PAINTED DOUGH Initial Training Program for You, Your Designated Operator (if different person) and General Manager. Initial Training is without charge for up to three people. Additional people may attend if You pay Our then current training charge for each additional person (currently \$2,000).

#### 5.2 Training Required

You, Your Designated Operator (if different person) and General Manager must each attend and complete Our Initial Training Program to Our reasonable satisfaction and prior to opening of Your Outlet. All Managers of Your Outlet must either attend and successfully complete Our training or otherwise become certified as required by the Manual. You must always have a properly certified Manager on duty at Your Outlet whenever it is open to the public. In Our sole discretion, We may also provide training for

successor and replacement personnel. You must pay for the expenses of attendance, such as lodging, meals, transportation, and wages of attendees.

### 5.3 Training Employees

You will be responsible for full compliance at Your Outlet with the requirements taught at Our Initial Training and will cause Your Outlet's employees to be trained in those requirements which are relevant to the performance of their respective duties. We may require Your employees to be trained and certified in the performance of their duties, and with Our consent You may have employees approved as certified trainers for the other employees. No employee of Yours will be deemed to be an employee of Ours for any purpose whatsoever.

### 5.4 Pre-Opening Events

Prior to opening Your Outlet Premises for business, You agree at Your own expense to conduct mock service and pre-opening operations following the requirements of the Manual.

### 5.5 Continuing Training

You and such employees as We may designate will, from time to time, personally attend and complete refresher courses in Outlet operations and any training sessions held for the purpose of introducing new products or procedures.

### 5.6 Fees; Expenses

We reserve the right to charge a reasonable fee for training successor or replacement personnel, and for any additional training programs and course materials, at Our discretion. Current fees are designated in the Manual.

### 5.7 Attendance at Meetings

You and the Designated Operator (if different person) must attend, at Your expense, all annual franchise conventions We may hold or sponsor and all meetings relating to new products or product preparation procedures, new operational procedures or programs, training, restaurant management, sales or sales promotion, or similar topics. If You or the Designated Operator are not able to attend a meeting or convention, You must notify Us prior to the meeting and must have a substitute person acceptable to Us attend the meeting. We reserve the right to require that You and/or Your Designated Operator attend any additional meetings that We deem appropriate under special circumstances, provided however, that We will not require more than one additional meeting every year and We will use Our best efforts to give You written notice of any such meeting at least 10 days prior to the meeting.

## **ARTICLE 6: MAINTENANCE; MODERNIZATION**

### **6.1 Repairs and Maintenance**

(a) You agree to maintain Your Outlet (interior and exterior), and its grounds and parking area in a “like new” condition and in conformity with the requirements set forth in the Manual or other writings issued by Us. Furthermore, You agree to replace Outlet equipment, fixtures, furnishings, trade dress and signage as necessary or required by Us and to obtain any new or additional equipment as may be reasonably required by Us for new products or procedures. After receipt of Our written notice, You agree to promptly take all such action as requested by Us within the period of time set forth in such written request. If You fail to take action within the period of time set forth in Our notice, We may, in addition to all other remedies, enter Your Outlet and effect the corrective action contained in the notice, and You shall immediately pay the costs incurred by Us in taking such action.

(b) Except as may be expressly provided in the Manual, no changes of any kind in design, signs, equipment or decor will be made in, on or about Your Outlet premises without prior written approval of in each instance. You will obtain, repair, maintain and replace all equipment, signs and other Outlet items at Your sole cost.

### **6.2 Modernization**

In order to compete effectively and to assure the continued success of Your Outlet, You agree, from time to time, as reasonably required by Us in writing (taking into consideration the cost and then remaining term of this Agreement), to modernize Your Outlet premises, parking area and equipment to Our then current standards and specifications. You understand and agree that this obligation is in addition to other obligations under this Agreement, such as repair, maintenance and purchase of new equipment. We will not require You to spend more than \$25,000 every three years on Outlet modernization during the initial term of this Agreement. You will have six months from the receipt of Our notice to complete the modernization.

### **6.3 Failure to Repair, Maintain or Modernize**

You acknowledge and agree that the requirements of Article 6 are reasonable and necessary to ensure continued public acceptance and patronage of PAINTED DOUGH Outlets and to avoid deterioration or obsolescence in connection with the operation of Your Outlet. If You fail to make the repairs, maintenance or modernization as required by this Article 6, We may, in addition to Our other rights in this Agreement, effect such repairs, maintenance or modernization and You must reimburse Us for the costs We incur.

## ARTICLE 7: MARKETING AND ADVERTISING

### 7.1 Marketing, Promotion and Advertising Programs

The parties recognize the value of marketing, advertising, and promotions to enhance the goodwill and public image of the System. We agree that We will develop marketing, promotion and advertising programs designed to promote and enhance the collective success of all PAINTED DOUGH Outlets. It is expressly agreed that in all respects of such marketing, promotion, and advertising (such as type, quantity, timing, placement and choice of media, market areas and advertising agencies), Our decisions made in good faith will be final and binding. Your participation in all such advertising and sales promotion programs must be in full and complete accordance with any terms and conditions as We may have established. You must use and honor only system-wide gift cards, certificates and checks that We designate, and You must obtain all certificates, cards or checks from an Approved Supplier.

### 7.2 Local Advertising

(a) Unless and until in the future, We require You to pay or spend a designated percentage of Gross Revenues (up to 2%) for marketing in Your Outlet's trade area ("**Local Marketing**"), You agree to spend monthly the amount (not to exceed \$5,000) that We designate from time to time.

(a) You agree that Your Local Marketing starts two (2) months prior to opening Your Outlet and will include grand opening promotions. We will assist You in planning Your grand opening and Local Marketing campaigns.

(b) You agree that Our Local Marketing requirements, as presently written in the Manual and other writings, may in the future be amended and supplemented from time to time, and incorporated into and made part of this Agreement by reference.

(c) You agree that We may in Our sole discretion designate Ourselves, an Affiliate, or select a third-party vendor to manage local marketing for franchised Outlets.

(d) We may require You to provide proof of all such marketing, promotion, and advertising expenditures. You acknowledge and agree that You must obtain Our prior written approval for all of Your local programs in order for them to qualify for required spending. Payments to an approved Advertising Cooperative ("**Ad Co-op**") will be applied to this Local Advertising obligation.

(e) You will not make any contributions or donations of items, services, or money to any individual or entity, or provide any type of other benefit to any charitable, religious, political, social, civic or other type of organization (or to any individual on behalf of any such organization) in the name of Your Outlet or otherwise associate with the Marks, without our prior express written consent.

(f) You will not establish Your own “eclub” marketing campaigns, Gift Card programs, Loyal Customer programs, any website, social media accounts, or other such programs as designated in the Manual without Our prior written approval. You agree to diligently participate in all promotional campaigns, customer loyalty programs, special offers, and other programs, which are prescribed from time to time by Us.

(g) You will not issue any press release without Our prior express written approval.

### 7.3 System Marketing Fund

(a) In order to maximize the general public recognition and acceptance of PAINTED DOUGH Outlets, We may, at such time as We believe is appropriate for the System, establish a System Marketing Fund and require You to contribute as specified in the SUMMARY to such System Marketing Fund. We will also set the initial contribution rate at that time, which may be less than the maximum rate.

(b) We will use monies from the System Marketing Fund to pay for the production and development costs of materials to be used in marketing all Outlets and for advertising, marketing and promotion of PAINTED DOUGH Outlets generally, including without limitation, costs and expenses related to the employment of advertising agencies, payment of talent and residuals, research and development, design and development of trademarks and logos, promotions, public relations market research, reimbursement to Us, or Our Affiliates of general and administrative expenses and allowances directly related to marketing of PAINTED DOUGH Outlets and clearance of marketing, advertising and promotional programs.

(c) You agree that We may reimburse Ourselves for administrative expenses with respect to the System Marketing Fund (i) the direct costs and expenses incurred by Us or Our Affiliates in administering the System Marketing Fund and (ii) up to fifteen (15%) of System Marketing Fund contributions for each of Our fiscal years to cover (A) Our administrative costs and overhead incurred by Us in connection with activities related to the administration of the System Marketing Fund and its programs and (B) a pro rata portion of the compensation paid by Us or Our Affiliates to persons for their work on System Marketing Fund related matters.

(d) We will deposit the System Marketing Fund Fees in one or more separate accounts, which will not be considered one of Our assets. You agree that We shall not be a “trustee” of the Marketing Fund or such Fees.

(e) We agree to cause an annual accounting of the System Marketing Fund and to make the results of such accounting available to You upon request. If such accounting is made by an independent accounting firm, the expenses thereof shall be paid from the System Marketing Fund.

(f) We and Our Affiliates reserve the right to receive advertising promotional allowances and/or advertising rebates from suppliers or distributors which relate directly to purchases by PAINTED DOUGH Outlets operated by franchisees. In Our sole discretion, We and Our Affiliates may use these allowances and/or advertising rebates for whatever purposes We elect.

(g) You agree that We have no obligation in administering the System Marketing Fund to make expenditures for You or others which are equivalent or proportionate to the contribution(s) made or to ensure that any particular franchisee benefits directly or pro rata from any marketing program or advertising.

#### 7.4 System Marketing Fund Policy

We will develop and modify from time to time as necessary a Fund Policy which will include procedures and guidelines for disbursements and expenditures from the System Marketing Fund. All monies in the System Marketing Fund, including any interest or other income earned from the investment of such monies, must be spent and disbursed only in accordance with this Agreement and the System Marketing Fund Policy, which may be modified from time to time at Our discretion so long as all monies are used to pay for marketing, promotion and advertising programs for PAINTED DOUGH Outlets in the United States of America.

#### 7.5 Temporary Investment

We may temporarily invest any or all of the monies held in the System Marketing Fund from time to time at Our sole discretion in accordance with the System Marketing Fund Policies. We will use any interest or other income received from such investments to pay for the expenses of administering the System Marketing Fund pursuant to the System Marketing Fund Policy. Interest or income received from temporary investments that exceed the reasonable expenses of administering the fund will be considered part of the System Marketing Fund.

#### 7.6 Ad Co-ops

(a) We may at Our discretion designate any geographical area as a basis for an Ad Co-op for the purpose of marketing, advertising, and promoting PAINTED DOUGH Outlets in that area, including the Company Outlets. The Ad Co-op will also serve as means of exchanging ideas, sharing information and problem solving.

(b) You agree to become a member of an Ad Co-op at any time the Outlet is located within the designated area for such Ad Co-op.

(c) You agree to execute and deliver any such Ad Co-op agreements or undertakings required by such Ad Co-op, to make contributions as required of its members, and to maintain Your status as a member in good standing of such Ad Co-op at all times.

(d) We may establish and revise the requirements for approval of Ad Co-ops, the amount of contribution by members to each such Ad Co-op, and exemptions from membership or temporary suspensions of contributions.

(e) The mandatory contribution to an Ad Co-op may exceed Your Local Advertising spend if the Ad Co-op members agree to additional funding in accordance with established Bylaws. All such contributions will be credited toward your Local Advertising Spend.

#### 7.7 Approval of Advertising

(a) You must use only advertising copy and other materials which are in strict compliance with Our requirements, as set forth in the Manual or otherwise. All of Your advertising, promotion and marketing must be completely clear and factual, not misleading, and conform to the highest standards of ethical marketing and the promotion policies.

(b) If You wish to use other or modified materials, You must submit to Us, in each instance and at least thirty (30) days prior to first use, the proposed advertising copy and materials for approval in advance of publication. You may use only advertising materials which have been approved in writing by Us.

(c) In no event will Your advertising contain any statement or material which may be considered (i) in bad taste or offensive to the public or to any group of persons or (ii) defamatory of any person or an attack on any competitor, (iii) will not be misleading and (iv) will conform to the highest standards of ethical marketing and the promotion policies that we prescribe from time to time.

#### 7.8 Grand Opening

You agree to conduct an approved grand opening promotion for Your Outlet during the first thirty (30) days after Your Outlet is open, and to spend at least the amount specified in the SUMMARY in approved expenditures in regard to such promotion. We will assist You in planning for Your Grand Opening. All advertising, methods, and media You use in connection with such Grand Opening Event must have Our prior approval. At Our request, You must submit to Us expenditure reports accurately reflecting Your Grand Opening Event expenditures. Grand Opening Event expenditures will not be credited toward any of Your other obligations under this Section 7.

#### 7.9 Websites and Internet Advertising

You shall not, indirectly or directly, register, establish or operate any website, Internet directory listing, domain name, social networking site, or other digital presence in any media or platform as defined in the Manual, relating in any way to Your Outlet, or which uses the Marks without Our prior written consent. Except email communications, You may not conduct any aspect of Your Outlet business through the Internet without Our

prior consent. You will adhere to any social media policies that We establish from time to time and will require all of Your employees to do so as well. We will include information about Your Outlet on Our website.

#### 7.10 Promotional Programs

We or Our Affiliate may, from time to time, in Our sole discretion, develop and administer national or regional advertising and sales promotion programs, loyalty programs (including, without limitation, gift card, gift certificate and other customer loyalty or retention programs) and test programs. You must participate in all such programs, at Your expense and sign the forms and take the actions that We require to participate in such programs. You acknowledge that such participation may require You to purchase reasonable point of sale advertising material, posters, flyers, product displays and other promotional materials.

#### 7.11 Social Media

We have sole discretion and control over any profiles using or relating to the Marks, or that display the Marks, that are maintained on social media, including without limitation Facebook, Twitter, Instagram, or other similar outlets that may exist in the future. We may use part of the Marketing Fund monies We collect under this Agreement to pay or reimburse the costs associated with the development, maintenance, and update of such profiles. We may (but need not) establish a social media policy and guidelines pursuant to which You may establish profiles or otherwise establish a presence on such social media. In that event, You shall comply with the standards, protocols, and restrictions that We impose from time to time on such use.

### **ARTICLE 8: ACCOUNTING AND RECORD KEEPING**

#### 8.1 Point of Sales System/Accounting System

(a) Before the opening of Your Outlet and at Your own expense, You agree to procure and install the computer hardware, software, Internet connections and service, required dedicated telephone and other computer-related accessories, peripherals and equipment that are required in the Manual (the “**Point of Sales System**”). You must record all transactions on a computer-base system that is fully compatible with Our computer system, or the computer system of Our designated POS supplier and/or other third-party vendors. The computer software package developed for use in the Outlet may include proprietary software. You may be required to license the proprietary software from Us or a third party and You also may be required to pay a software licensing or user fee in connection with Your use of the proprietary software.

(b) You agree to accurately, consistently, and completely record and provide through the Point of Sales System or other systems designated by Us, all information concerning the operation of Your Outlet that We require, in the form and at the intervals that We require, as set forth in the Manual.

(c) You acknowledge and agree that We will have full and complete independent access to Your Point of Sales System, and We may retrieve from Your Point of Sales System all information that We consider necessary, desirable, or appropriate.

## 8.2 Accounting Information

You understand and agree that We may under Section 8.1 require You to use software which will generate accounting information which will be accessible to Us electronically. You also agree that We may require You, following written notice or as part of the Manual, to send to Us in the form and within the time schedules set forth in the Manual, hard copy or other form of reports and information. These may include Profit and Loss Statements, Balance Sheets and Statements of Cash Flow, sales tax returns, and income tax returns.

## 8.3 Accounting Records

You agree to maintain and preserve for a minimum of seven (7) years from the date of preparation full, complete, and accurate books, records and accounts in accordance with generally accepted accounting principles and in the form and manner prescribed by the Manual.

## 8.4 Sales Tax Returns; Other Reports

You agree to deliver to Us on or before the dates specified in the Manual a copy of all sales tax returns, occupation tax reports, and other similar returns or reports prepared by or on behalf of the Outlet according to the form and timing that We prescribe.

# **ARTICLE 9: AUDITS AND INSPECTIONS**

## 9.1 Audit Rights

You agree that We will at all times have the following audit rights:

(a) Our representatives may on a reasonable basis review, inspect and copy any and all accounting records, income and sales tax records and other such documents, as they determine, in their sole discretion as being necessary to audit Your compliance with this Agreement.

(b) If any inspection or audit reveals that the Gross Revenues reported in any report or statement are less than the actual Gross Revenues calculated during such

inspection, and/or fees owing are otherwise miscalculated, then You will immediately pay Us the additional amount of fees owing by reason of the understatement of Gross Revenues previously reported and/or other miscalculation, together with interest as provided in Section 2.3.

(c) In the event that any report or statement by You understated Gross Revenues and/or fees owing by more than two percent (2%) as calculated during Our inspection, You will, in addition to paying for the additional fees and interest, pay and reimburse Us for any and all expenses incurred in connection with its inspection, including, but not limited to, reasonable accounting and legal fees. Such payments will be without prejudice to any other rights or remedies We may have under this Agreement or otherwise. In addition, We may at Our sole discretion require a complete and full audit in accordance with generally accepted accounting principles and by a certified public accountant acceptable to Us, at Your expense.

## 9.2. Inspection

(a) You agree to, at Your expense, participate in Our approved inspections and surveys regarding guest satisfaction and Outlet inspections as stated in the Manual. In addition, You will cause the reports of all such inspections or surveys to be sent to Us.

(b) We, or Our designee, will make periodic visits or calls to Your Outlet as We deem advisable. You agree that Our representatives will have the right at any time, and from time to time, without notice to enter Your Outlet for the purpose of inspecting its condition and its operations for compliance with Our requirements contained in this Agreement and in the Manual, and for any other reasonable purpose connected with the operation of Your Outlet. Our inspections and evaluations may include a "mystery shopper" program from time to time throughout the term of this Agreement. We may, in Our sole discretion, contract with a third party to conduct sanitation and food safety audits of Your Restaurant periodically throughout the Term of this Agreement.

(c) You agree to incorporate into Your Outlet any reasonable corrections and modifications We require to maintain Our standards of quality and uniformity, as quickly as is reasonably possible and using all resources at Your disposal. If You fail an inspection, or if We receive a specific customer complaint, You must pay the actual costs and expenses of a follow up inspection by Us or Our designee for each visit.

## 9.3 Books and Records

Without limiting the generality of Section 9.2, Our representatives will have the right at all times during normal business hours to confer with Your Outlet's employees and customers, and to inspect Your books, records and tax returns, or such portions thereof as pertain to the operation of Your Outlet. All of Your books, records and tax returns will be kept and maintained at Your Outlet, at Your primary office or such other place as may be agreed to from time to time in writing by the parties.

#### 9.4 Ownership Records

Unless You are an individual or sole proprietorship, You must maintain an accurate ownership register or other list of names, addresses and interests of all Your record and beneficial owners. Upon ten days written notice from Us, You must deliver to Us a copy of such register and/or list of owners, certified by Your LLC manager or chief executive officer to be correct. During any audit or other inspection under this Section 9, You will allow Our representatives to inspect and copy such register and/or list.

### **ARTICLE 10: RELATIONSHIP OF PARTIES AND INDEMNIFICATION**

#### 10.1 Relationship

You acknowledge that You are an independent business and solely responsible for control and management of Your Outlet. You are not and will not represent or hold Yourself out as being an agent, legal representative, joint venture, partner, employee, or servant of Us for any purpose whatsoever and, where permitted by law to do so, will file a business certificate to such effect with the proper recording authorities. You are an independent contractor and are not authorized to make any statement or commitment on behalf of Us, or to create any obligation, express or implied, on behalf of Us. You agree that We are not in any way a "fiduciary" in regard to You. You will not use the name PAINTED DOUGH or any similar word as part of the name of a corporation or other business entity directly or indirectly associated with You, unless otherwise authorized by Us in writing.

#### 10.2 Indemnification

(a) You must immediately notify Us in writing of any claim; litigation or proceeding that arises from or affects the operation or financial condition of Your PAINTED DOUGH business or Outlet.

(b) You will indemnify Us, the Company, Our Affiliates and their officers, directors, employees, agents, affiliates, successors and assigns from and against (i) any and all claims based upon, arising out of, or in any way related to the operation or condition of any part of Your Outlet or Outlet premises, the conduct of Your Outlet's business, the ownership or possession of real or personal property, any negligent act, misfeasance or nonfeasance by You or any of Your agents, contractors, servants, employees or licensees, (ii) Your failure to perform any of Your obligations under this Agreement, and (iii) any and all fees (including reasonable attorneys' fees), costs and other expenses incurred by Us or on Our behalf in the investigation of or defense against any and all such claims. We reserve the right to select Our own legal counsel to represent Our interests.

(c) We indemnify and hold You harmless from all direct expenses and liabilities arising solely from any third-party claim that Your use of Our Marks or Our intellectual

property in connection with Your operation of Your Outlet, so long as You were operating the Outlet in strict compliance with this Agreement, infringes upon the trademarks or intellectual property of such third-party claimant. We will not indemnify You against such third-party claims unless Your use of the Marks complies with the requirements of this Agreement and the System. If You are made a party to a legal proceeding solely pursuant to a claim of Your alleged infringement upon the trademarks or intellectual property of a third party, and provided You cooperate with Us fully and timely (which may include You signing a waiver of conflict of interest for any counsel representing both You and Us), We will hire counsel to protect Our interests and will defend You at Our own expense. Any settlement We negotiate will bind You, but We will reimburse You for Your direct cost of compliance with the settlement agreement. We reserve the right to control all aspects of any such legal proceeding.

(d) Notwithstanding the foregoing provisions in Section 10.2(c), if We determine in Our sole discretion that it is necessary or appropriate to add, delete or modify any of Our Marks or other intellectual property, whether Our determination is made in connection with a dispute, or otherwise, You will be solely responsible for all expenses associated with adding, deleting, or modifying all signs and other materials that display Our Marks.

## **ARTICLE 11: INSURANCE**

### **11.1 Insurance**

You will obtain before beginning construction or remodeling of Your Outlet, or as provided in the Manual, and will maintain in full force and effect during the entire term of this Agreement, at Your sole cost and expense, an insurance policy or policies protecting You and Us against any and all loss, liability, or occurrence, arising out of or in connection with the construction, condition, operation, use or occupancy of Your Outlet or Your Outlet premises. We must be named as an additional insured in all such policies, workers' compensation excepted.

### **11.2 Policies**

In all events, the insurance policy or policies will include at least the following:

- (a) Comprehensive general liability insurance, including products liability coverage with minimum coverage of \$1,000,000 per occurrence and \$2,000,000, or higher if Your state law requires.
- (b) Property insurance covering the perils of fire and extended coverage, vandalism, and malicious mischief with coverage to be at replacement cost.
- (c) Liability for owned, non-owned and hired vehicles with minimum coverage of \$1,000,000 per occurrence and \$2,000,000 in the aggregate.
- (d) Umbrella liability insurance policy providing a minimum of \$4,000,000 coverage including the above limits.
- (e) Course of construction insurance at replacement cost.

- (f) Workers' compensation insurance as required by applicable state law.
- (g) Business interruption insurance (reasonable coverage and time limit).
- (h) Employment practices liability insurance with a minimum coverage of \$1,000,000 per occurrence and in aggregate. The minimum retention/deductible shall not exceed \$50,000.
- (i) Any other such insurance coverages or amounts as required by law or other agreement related to the Outlet.

Your obligation to maintain this insurance will not be limited in any way by reason of any insurance maintained by Us.

### 11.3 Qualified Insurance Carrier

All insurance policies required by this Agreement must be written by a responsible insurance company or companies satisfactory to Us, and in accordance with the minimum limits set forth in Section 11.2 above, which may be changed from time to time by Us at Our discretion to reflect changed conditions. Each insurance company must be rated no less than A VII by A.M. Best and Company. You must maintain such additional insurance coverage and increased limits that We may reasonably consider advisable for an Outlet business in the area where Your Outlet is located.

### 11.4 Certificates

Upon obtaining the insurance required by this Agreement and on each policy renewal date thereafter, You will deliver to Us for Our approval certificates of insurance showing compliance with the requirements of this Section 11. We require You to provide full and complete copies of all insurance policies. Such certificates must state that the policy or policies will not be canceled or altered without at least thirty (30) days' prior written notice to Us. Maintenance of such insurance and the performance by You of Your obligations under this Section 11 will not relieve You under the indemnity provisions of this Agreement or limit such liability.

### 11.5 Changes in Insurance Requirements

You agree that to meet then current needs and situations We may in the Manual revise and add to the above requirements.

### 11.6 Failure to Insure

If You, for any reason, fail to obtain and maintain the insurance coverage required by this Section, We will have the right and authority to obtain immediately such insurance coverage, and to charge the cost thereof plus a ten percent (10%) processing fee to You, which charges will be paid immediately upon notice and will be subject to charges for late payments in the manner set forth in Section 2.3 hereof.

## ARTICLE 12: DEBTS AND TAXES

### 12.1 Debts and Taxes

You will pay promptly when due all debts and other obligations incurred directly or indirectly in connection with Your Outlet and its operation; including, without limitation, all taxes and assessments that may be assessed against Your Outlet land, building and other improvements, equipment, fixtures, signs, furnishings and other property, and all liens and encumbrances of every kind and character incurred by or on behalf of You in conducting Your Outlet business. You may protest or contest any of such amounts so long as such protest or contest does not adversely affect the continued business of Your Outlet or possession of Your Outlet premises.

## ARTICLE 13: PRINCIPALS, SALE AND ASSIGNMENT, RESTRICTIONS

### 13.1 Definition of Principals; Personal Guarantees

For purposes of this ARTICLE 13, the term "**Principals**" will include the persons signing this Agreement as Principals, any of Your future owners and the spouses, or any trust for the benefit of any such Principal. Unless We have given Our written consent to the contrary, each of the Principals signing this Agreement hereby personally guarantees, jointly and severally, the full payment and performance of Your obligations under this Agreement. We have an unrestricted right to approve all owners and any future owners.

### 13.2 Authorized Agent

You and the Principals appoint the person specified in the SUMMARY with full authority (the "**Authorized Agent**") to act on behalf of You and the Principals in regard to performing, administering, or amending this Agreement. We may deal completely with the Authorized Agent in such regard unless and until Our actual receipt of written notice from You and the Principals of the appointment of a successor to the Authorized Agent.

### 13.3 Personal Contract; Consent Mandatory

You agree that a material part of the consideration for Our entering into this Agreement is the personal confidence We have in You and the Principals. No person will succeed to any of Your rights under this Agreement by virtue of any voluntary or involuntary proceeding in bankruptcy, receivership, attachment, execution, assignment for the benefit of creditors, other legal process or transfer not expressly authorized and consented to by Us. Except as expressly provided for in this Agreement, any attempt by You to transfer any of Your rights or interest under this Agreement will constitute a material breach of this Agreement, and in such event We will have the right to terminate this Agreement upon written notice to You. We will not be bound by any attempted transfer in any manner whatsoever, by law or otherwise, of any of Your rights or interests under this Agreement except as permitted by this ARTICLE 13.

#### 13.4 Form of Legal Entity

(a) If You have been organized under applicable law as a legal entity such as a corporation, partnership, or limited liability company (hereinafter referred to as a "**Legal Entity**") or if Your interests in this Agreement are to be transferred to a Legal Entity, such Legal Entity must be expressly approved in advance and in writing by Us. We will not charge a transfer fee for forming or transferring ownership to such Legal Entity.

(b) You must comply with this Section 13.4 and any other condition which We may require, including a limitation on the number of owners of the Legal Entity. We have unrestricted right to approve all equity owners and any future owners and to require a Personal Guaranty similar to form attached as **Attachment 3**. All organization documents must be promptly submitted for Our review.

(c) Unless We provide Our prior written consent to the contrary, the Legal Entity must satisfy the following conditions and such other conditions as We may require under the circumstances:

- (i) The Legal Entity must be closely held with the single purpose of operating PAINTED DOUGH Outlets.
- (ii) The Principals will own and control not less than fifty and one-tenth percent (50.1%) of the voting rights of the Legal Entity or otherwise satisfy Us that the Principals have operational control of the Legal Entity.
- (iii) There will not be more than ten (10) owners of the Legal Entity in addition to the Principals.

(d) You must notify Us of any proposed issuance or transfer of an ownership interest in the Legal Entity, and We will have thirty (30) days after its receipt of such notice to disapprove such intended issuance or transfer. Such disapproval must be reasonable and based on the transferee's being involved with other parties in competition with PAINTED DOUGH Outlets or having a known history, reputation or character which is adverse to the interests of PAINTED DOUGH Outlets. Each such notice from You must identify the proposed transferor and transferee and provide a complete and accurate description of the proposed transferee sufficiently detailed to allow Us to make a reasoned decision of approval or disapproval.

(e) Notwithstanding anything to the contrary contained in this Section 13.4, a transfer of ownership interest in the Legal Entity which involves only a transfer between or among the Principals, entities wholly owned and controlled by the Principals or any of them or entities controlled by any Principal for the benefit of members of his or her immediate family shall not require Our prior written approval so long as the other requirements of this Section 13.4 are satisfied and We receive prior written notice of such transfer together with complete details regarding the ownership and legal structure of the

transferee(s). We will not unreasonably withhold Our approval of any transfer so long as the Principals maintain operational control over You.

(f) The organization documents of the Legal Entity will contain the restrictions set forth in Subsections 13.4(b) and (c) above and this Subsection 13.4(e). You will cause to be printed on each certificate or other document of ownership of the Legal Entity a legend referencing the restrictions contained herein, which will read substantially as follows:

"The transfer of ownership in this company is subject to the terms and conditions of a PAINTED DOUGH Franchise Agreement. Reference is made to such Franchise Agreement and to the restrictive provisions contained in the organization documents of this company."

(g) You agree at Our request to furnish information, execute forms, and take all such action as requested by Us, to provide Us with such documentation to support this ARTICLE 13. You agree to provide Us with such documentation within fifteen (15) days after receipt of such request.

### 13.5 Written Consent

(a) Except as otherwise expressly set forth in this ARTICLE 13, neither Your rights and interests under this Agreement nor any ownership interests in You (if You are a Legal Entity) may be sold, assigned, encumbered, or otherwise transferred (all of which are hereinafter included within the term "**transfer**") in whole or in part in any manner whatsoever without Our prior express written consent.

(b) We will not unreasonably withhold Our consent to a transfer. In considering a request for transfer, We will consider, among other things, the qualifications, apparent ability, and credit standing of the proposed transferee as if he or she were a prospective direct purchaser of a franchise from Us. In addition, but without limitation, We will require as conditions to the granting of Our consent all of the following:

- (i) There must be no existing default in the performance or observance of any of Your obligations under this Agreement or any other agreement with Us, and Your Outlet will be in condition and appearance satisfactory to Us and in accordance with Our System standards at that time;
- (ii) You must settle all outstanding accounts with Us and our Affiliate(s);
- (iii) You must pay Us Our Transfer Fee as specified in the SUMMARY to compensate Us for Our expenses incurred in connection with investigating the qualifications of the proposed transferee, training the proposed transferee and the direct administrative costs of effectuating the transfer;
- (iv) The proposed transferee must appoint a Designated Operator acceptable to Us; Designated Operator and the proposed transferee

- (if different) must, prior to the transfer, personally attend and satisfactorily complete Our initial training program;
- (v) The proposed transferee or other person(s) designated by Us must execute Our then current form of Franchise Agreement for the remaining term of this franchise.
  - (vi) The transfer documents must contain a non-competition agreement by You similar to that set forth in this Agreement at subsection 4.9(f);
  - (vii) If You or Your Principals finance any part of the sale price of the transferred interest, You and Your Principals must agree that all of the proposed transferee's obligations are subordinate to the transferee's obligations to pay amounts due to Us and Our Affiliate(s); and
  - (viii) Such other requirements as We may in Our discretion deem reasonably necessary, including a general release of any claims against Us.

(c) Neither this Agreement, any of the rights conferred on You hereunder nor any ownership interests in the purchasing franchisee may be retained by You as the transferring franchisee as security for the payment of any obligation that may arise by reason of any such transfer.

### 13.6 Death and Disability

(a) Except as provided for herein to the contrary, the death or disability of an owner of a Legal Entity shall have the legal results of applicable law. In the event of the death or legal incapacity of one of the Principals, the decedent's estate or You must immediately notify Us of such death, and within thirty (30) days after such notice further notify Us of a proposed successor to the decedent's interests (the "**Successor**"). If We approve the Successor, he or she will replace the decedent as a Principal hereunder.

(b) In the event We do not approve the Successor, We will so notify You, and You or the decedent's estate will use Your best efforts within the six (6) months from the date of such written notice from Us to sell the interests in this Agreement and Your Outlet to a bona fide purchaser in accordance with and subject to all of the provisions of this ARTICLE 13. If by the end of such six-month period, You have not consummated a transfer of such interest or stock in a transaction which meets the requirements of this ARTICLE 13, We will have the option to purchase all of such interest in Your Outlet and franchise or in the ownership of the Legal Entity at the fair market value thereof as determined in good faith by an independent appraiser selected as set forth in subsection (c) below.

(c) The procedure for determining the fair market value or other terms of purchase shall be that We and You shall each select one appraiser and such two appraisers shall select a third appraiser, and the third appraiser shall make the necessary determination, with the costs of appraisal to be borne equally by You and Us.

(d) If We in Our discretion decide that the death or disability of an individual, a Principal or a Successor will result in unsatisfactory operation of Your Outlet, We may take over operation of Your Outlet temporarily, and You will reimburse Us for all of Our costs and compensate Us for Our efforts at an amount equal to 5% of Gross Revenues during such time.

### 13.7 Right of First Refusal

(a) You must give written notice to Us of any planned, attempted transfer or offer to transfer by You in any manner whatsoever of any interest in or under this Agreement or of any transfer of the controlling ownership interest in You if You are a Legal Entity.

(b) Excepting a transfer described in Section 13.4(e), You grant Us the right of first refusal in regard to any such offer or transfer to purchase such interest on the same terms and conditions (or on terms and conditions determined by Us which will result in the same net financial benefits to You as transferor). In exercising Our right of first refusal, We may pay the transferor cash at closing in the same amount as the principal amount of any promissory note(s) otherwise required by the transferee or in the amount of the fair market value of any other non-cash purchase price, and if stock is provided for, may substitute stock of ourself or an affiliated corporation in an equivalent value to the stock contained in the offer of first refusal. Any determination of fair market value, equivalent value or net financial benefits made by Us in good faith shall be deemed an acceptance of the offer. Until We have accepted or rejected the offer of first refusal from You, You will neither consider nor accept any other offer and will keep confidential all of the terms of such transfer.

(c) The first refusal offer to Us must be in writing and must include complete details of all of the terms, conditions, and provisions of the proposed transfer, including copies of all agreements which may be assumed by or assigned to the transferee. After receipt of all of such information, We will have thirty (30) days after actual receipt of all of such documents within which to accept or reject it. Our failure to accept within such thirty (30) days will constitute a rejection. If rejected, You may consummate the transfer to a third party if all other provisions of this Agreement are satisfied, but the transfer must be consummated within six (6) months and only upon the terms, conditions and provisions previously offered to Us.

(d) After any rejection by Us, You must in all events submit a fully executed copy of all final transfer documents to Us at least three (3) days in advance of any proposed consummation or closing date for Our review and comparison with the first refusal offer previously submitted to it. Any variation will require an offer of first refusal to Us on the varying terms following the same procedures set forth above. Our right of first refusal will be unrestricted and absolute, and We will in all cases have at least thirty (30) days to consider and act on each offer or any change in the terms and conditions of offer.

(e) Nothing contained in this Section 13.7 will in any way be deemed to limit Our discretion in considering, approving, or disapproving any request to transfer any interest under this Agreement.

#### 13.8 Assumption

This Agreement and Our rights, interests and obligations hereunder may be transferred to the benefit of any entity in whole or part which succeeds to Our business and assumes Our obligations hereunder.

### **ARTICLE 14: TRADEMARKS**

#### 14.1 Ownership

You agree that We have the sole and exclusive right (except for rights granted under existing and future franchise agreements) to use the Marks in connection with the products and services to which they are or may be applied by Us. You represent, warrant and agree that neither during the term of this Agreement nor after its expiration or other termination will You directly or indirectly contest or aid in contesting the validity, ownership or use of the Marks by Us or take any action whatsoever in opposing the rights claimed therein by Us.

#### 14.2 Nonexclusive License

The license granted under this Agreement to use the Marks is nonexclusive except to the extent otherwise specified herein, and We, in Our sole and absolute discretion, may grant other licenses in, to and under the Marks in addition to those licensees already granted, both within and outside Your Outlet's trading area, and to develop and license other names and marks on any such terms and conditions as We deem appropriate.

#### 14.3 Other Uses

You expressly agree that We have the exclusive, unrestricted right to engage directly and indirectly, at wholesale, retail, catering and otherwise, within Your Outlet's trading area and elsewhere, in (a) the production, distribution and sale of food products and beverages under the Marks licensed hereunder or other marks; and (b) the use, in connection with such production, distribution and sale, of any and all trademarks, trade names, service marks, logos, insignia, slogans, emblems, symbols, designs and other identifying characteristics as may be developed or used from time to time by Us. The license granted to You under this Agreement does not include any right or authority of any kind whatsoever to pre-package or sell prepackaged food or drink products under the Marks. We have the sole and exclusive right to such rights at all times and at all locations.

#### 14.4 Goodwill

Nothing contained in this Agreement will be construed to vest in You any right, title or interest in or to the Marks, the goodwill now or hereafter associated therewith or any right in the design or any Outlet building, other than the rights and license expressly granted herein of the term hereof. Any and all goodwill associated with or identified by the Marks will inure directly and exclusively to Our benefit, including without limitation any goodwill resulting from operation and promotion of Your Outlet.

#### 14.5 Use of Marks

You may use the Marks only in association with products and services approved by Us and that meet Our standards and requirements. You may not use any Mark as part of any domain name, homepage, electronic address, or otherwise in connection with a Web site. You must follow Our rules when You use the Marks, including giving proper notices of trademark registration and obtaining fictitious or assumed name registrations required by law, and may not make any changes or substitutions to the Marks unless We direct in writing. You will not use the Marks in connection with any statement or material which may, in Our judgment, be in bad taste or inconsistent with the PAINTED DOUGH's public image, or tend to bring disparagement, ridicule or scorn upon Us, the Marks or the goodwill associated therewith. You, whether doing business as a proprietorship or Legal Entity, will not adopt, use or register (by filing a certificate or articles of incorporation, a fictitious business name statement, or otherwise) any trade name or business name, style or design which includes, or is similar to, any of PAINTED DOUGH's identifying characteristics. Your Outlet must prominently display a sign identifying the Outlet as a franchised location in a format We deem acceptable.

#### 14.6 Changes in Marks; Protection

We will have the right at any time and from time to time upon notice to You to make additions to, deletions from, and changes in the Marks, or any of them, all of which additions, deletions and changes will be as effective as if they were incorporated in this Agreement. All such additions, deletions and changes will be made in good faith, on a reasonable basis and with a view toward the overall best interest of PAINTED DOUGH Outlets generally. You must promptly comply with any required changes, revisions and/or substitutions, and You will pay all the costs of modifying Your signs, advertising materials, interior graphics and any other items which bear the Marks. We will protect and preserve the integrity and validity of the Marks by taking the actions deemed by Us in Our discretion to be appropriate in the event of any apparent infringement of the Marks.

#### 14.7 Infringements

You must notify Us promptly of any claims or charges of trademark infringement against Us or You, as well as any information You may have of any suspected infringement of the Marks. You will take no action with regard to any such matters without Our prior written approval and will cooperate fully with Us in dealing with any infringement

or claim of infringement. We will defend You (using legal counsel chosen by Us) and indemnify You from any claims of infringement regarding use by You of the Marks so long as You were using the Marks properly and as authorized by this Agreement.

## **ARTICLE 15: EXPIRATION AND TERMINATION**

### **15.1 Events of Default; Liquidated Damages**

(a) We will have the right to terminate this Agreement immediately upon written notice to You if any of the following events occur:

- (i) In the event of any breach or default under Sections 1.6 (opening date), 4.3(c) (failure to comply with applicable laws), 5.2 (mandatory training), 9.2 (inspection), 13.3 and 13.5 (unauthorized transfer) or 13.7 (right of first refusal);
- (ii) If a petition in bankruptcy, an arrangement for the benefit of creditors or a petition for reorganization is filed by or against You, or if You make any assignment for the benefit of creditors, or if a receiver or trustee is appointed for Your Outlet, unless remedied to Our satisfaction within twenty (20) days;
- (iii) If You for any reason lose Your right to possession of Your Outlet premises;
- (iv) If We discover that You have made any material misrepresentation or omitted any material fact in the information furnished by You in connection with the grant of this franchise;
- (v) If You (or any Principal) are convicted of any felony or other criminal conduct which is relevant to operation of Your Outlet or if You engage in conduct which reflects materially and unfavorably upon the operation and reputation of the PAINTED DOUGH business or System.
- (vi) If You abandon Your Outlet by failing to operate it for five consecutive days or lesser period if the facts and circumstances indicate that You do not intend to continue to operate Your Outlet (except as a result of fire, flood, earthquake, or similar causes beyond Your control);
- (vii) If You repeatedly fail to comply with one or more requirements of this Agreement, whether or not corrected after notice; or
- (viii) If We make a reasonable determination that continued operation of Your Outlet by You will result in an imminent danger to any of its customers or to public health or safety.

(b) If You default in any other requirement of this Agreement, We will have the right to terminate this Agreement immediately following thirty (30) days written notice to You (except in the case of a default in payment to Us, in which case only five (5) days written notice is required). If a non-monetary default cannot by its nature reasonably be cured within such thirty-day period, and so long as You are diligently taking all action

reasonably necessary to effect such cure, the cure period will be extended to a reasonable amount of time to effect such cure. A default in any other PAINTED DOUGH franchise agreement in which You or anyone holding an interest in You also has an interest will be considered a default under this Agreement, which if not cured will result in termination of this Agreement.

(c) We may terminate this Agreement upon written notice to You without any curative period if a default is repeated within any 12-month time period.

(d) The provisions of this Section 15.1 are subject to the provisions of any local statutes or regulations which may prohibit Us from terminating this Agreement without good cause or without giving You additional prior written notice of termination and opportunity to cure any default.

(e) Liquidated Damages

(i) Upon termination of this Agreement due to Your action or failure to take action according to its terms and conditions, You agree to pay Us within fifteen (15) days after termination, in addition to any amounts owed Us or Our Affiliates, liquidated damages equal to the average monthly Royalty Fees owed or paid during the 12 full calendar months of operation preceding the effective date of termination multiplied by (A) 24 (being the number of months in two (2) full years), or (B) the number of months remaining in the Agreement had it not been terminated, whichever is less.

(ii) The parties hereto acknowledge and agree that it would be impracticable to precisely determine the damages We would incur from this Agreement's termination and the loss of cash flow from Royalty Fees due to, among other things, the complications of determining what costs, if any, We might have saved and how much the Royalty Fees would have grown over what would have been this Agreement's current remaining term. The parties hereto consider this liquidated damages provision to be a reasonable, good faith pre-estimate of those damages.

15.2 Termination by You

You may terminate this Agreement following ninety (90) days written notice to Us if We materially breach this Agreement and fail to cure such breach within such ninety-day period.

15.3 Requirements Upon Termination

Upon the expiration or earlier termination of this Agreement for any reason, You must:

(a) immediately discontinue the use of the Marks and the System, including all PAINTED DOUGH recipes and proprietary procedures;

(b) unless We consent to the contrary, remove the Marks from Your Outlet building and its signs, fixtures, and furnishings, eliminate entirely PAINTED DOUGH trade dress and alter and paint Your Outlet building and other improvements a design and color which is basically different from the PAINTED DOUGH image and design so that there will no longer be any indication to the public that Your Outlet was a PAINTED DOUGH Outlet. If You fail to make or cause to be made any such change within thirty (30) days after written notice, We will have the right to enter upon Your Outlet premises, without being deemed guilty of trespass or any other tort, and make or cause to be made such changes and You will reimburse Us for all of Our reasonable expenses immediately following demand;

(c) not thereafter use any identifying characteristic that is in any way associated with Us or similar to those associated with Us, or operate or do business under any name or in any manner that might tend to give the public the impression that You are or were a franchisee or otherwise associated with Us;

(d) immediately deliver to Us all copies of the Manual and any items bearing the Marks or which are confidential; and

(e) pay all sums due Us or to become due to Us pursuant to this Agreement.

#### 15.4 Trademark Infringement

If You refuse to comply with a written notice of termination sent by Us and a court later upholds such termination of this Agreement, any operation of Your Outlet by You from and after the date of termination stated in such notice will constitute trademark infringement by You and You will be liable to Us for damages resulting from such infringement in addition to any royalties paid or payable hereunder, including, without limitation, Your profits.

#### 15.5 Option

If Your Outlet premises are leased by You from a third party, You will have included in such lease and any subsequent lease of the premises the right by You to assign such lease to Us without further consent by the lessor. We may elect to have the lease automatically assigned to Us under such provision if this Agreement is terminated, whether it is terminated by Us or by You. If We so elect, You will immediately vacate the premises, and We will be entitled to take possession of said premises, including all fixtures and leasehold improvements, and We will pay to You the fair market value of the interests owned by You in Your Outlet's furnishings and equipment. Fair market value will be determined by mutual agreement, or an appraiser selected by Us or the American Arbitration Association if We cannot agree.

## **ARTICLE 16: MISCELLANEOUS**

### **16.1 No Effect**

The waiver by Us of any breach or default, or series of breaches or defaults, of any term, covenant, or condition herein or of any same or similar term, covenant or condition in any other agreement between Us and any franchisee will not be deemed a waiver of any subsequent or continuing breach or default of the same or any other terms, covenants or conditions contained in this Agreement, or in any other agreement between Us and any franchisee.

### **16.2 Right and Remedies**

All of Our rights and remedies will be cumulative and not alternative, in addition to and not exclusive of any other rights or remedies provided for herein or which may be available at law or in equity in case of any breach, failure or default or threatened breach, failure or default of any term, provision or condition of this Agreement. Our rights and remedies will be continuing and not exhausted by any one or more uses thereof and may be exercised at any time or from time to time as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or taken at any time and from time to time. The expiration or earlier termination of this Agreement will not discharge or release You from any liability or obligation then accrued or any liability or obligation continuing beyond or arising out of the expiration or earlier termination of this Agreement.

### **16.3 Consents**

Whenever the consent of a party is sought or required hereunder, such consent will not be unreasonably withheld.

### **16.4 Partial Invalidity**

If any part of this Agreement will for any reason be declared invalid, unenforceable or impaired in any way, the validity of the remaining portions will not be affected thereby, and such remaining portions will remain in full force and effect as if this Agreement had been executed with such invalid portion eliminated. It is hereby declared the intention of the parties that they would have executed the remaining portion of this Agreement without including therein any such portions which might be declared invalid; provided, however, that in the event any part hereof relating to the payment of fees to Us, or the preservation of the Marks, trade secrets or secret formulae licensed or disclosed hereunder is for any reason declared invalid or unenforceable, then We will have the option of terminating this Agreement upon written notice to You.

## 16.5 Arbitration; Jurisdiction

(a) Except as set forth in Subsection 16.5(d), any unresolved dispute between the parties arising out of this Agreement shall be submitted to binding arbitration pursuant to the rules of the American Arbitration Association applicable to commercial arbitrations and the Federal Arbitration Act. The arbitrator must have at least five (5) years of significant experience in franchise law. Such arbitration shall be held within the county in which Our corporate headquarters are located as specified in the SUMMARY (the "**Home County**").

(b) At the conclusion of the arbitration, the arbitrator must deliver to the parties a written statement of conclusions of fact and conclusions of law supporting the final award of the arbitrator. Any party may move for judicial confirmation, modification, or correction of the final award of the arbitrator within 60 days after receipt thereof. Alternatively, judgment upon such decision may be entered in any court having jurisdiction over the matter. Arbitrators shall apply the law of the state where Your Outlet is located (without giving effect to any conflict of law principles) as set forth in Section 16.7 below.

(c) Any arbitration must be on an individual basis and the parties, and the arbitrator will have no authority or power to proceed with any claim as a class action or otherwise to join or consolidate any claim with any other claim or any other proceeding involving third parties. In the event a court determines that this limitation on joinder of or class action certification of claims is unenforceable, then this entire commitment to arbitrate will become null and void and the parties must submit all claims to the jurisdiction of the courts.

(d) Notwithstanding the foregoing, any action by Us which involves Your continued usage of any of the Marks or the System or an issue involving injunctive relief, may be submitted to a court in the Home County having jurisdiction over the issue involved. You and We expressly consent to personal jurisdiction in the Home County and agree that such court(s) shall have exclusive jurisdiction over any issues not subject to arbitration.

## 16.6 Attorney's Fees

If either party initiates any legal proceeding which involves issues arising out of this Agreement, the prevailing party in such action will be paid its reasonable attorneys' fees and costs by the other party.

## 16.7 Governing Law

Subject to Our rights under federal trademark laws and the parties' rights under the Federal Arbitration Act in accordance with Section 16.5, the parties agree that the law of the State where the Outlet is located (without giving effect to any conflict of laws

principles) will apply to the construction and enforcement of this Agreement and govern all questions which arise with reference hereto.

#### 16.8 Our Rights

Whenever this Agreement provides that We have a certain right, that right is absolute, and the parties intend that Our exercise of that right will not be subject to any limitation or review. We have the right to operate, administrate, develop, and change the System in any manner that is not specifically precluded by the provisions of this Agreement.

#### 16.9 Adaptations and Variances

Complete and detailed uniformity under many varying conditions may not always be possible, practical, or in the best interest of the System. Accordingly, We have the right to vary the Menu Items and other standards, specifications, and requirements for any franchised Outlet or franchisee based upon the customs or circumstances of a particular franchise or operating agreement, site or location, population density, business potential, trade area population, existing business practice, competitive circumstance or any other condition that We deem to be of importance to the operation of such Outlet, franchisee's business or the System. We are not required to grant to You a like or other variation as a result of any variation from standard menus, specifications or requirements granted to any other franchisee. You acknowledge that You are aware that Our other franchisees operate under a number of different forms of agreement that were entered into at different times and that, consequently, the obligations and rights of the parties to other agreements may differ materially in certain instances from Your rights and obligations under this Agreement.

#### 16.10 Notices

All notices and other communications required or permitted to be given hereunder will be deemed given when delivered in person, sent by telefax to such person's telefax number with copy by regular mail, sent by an established overnight delivery service or mailed by certified mail addressed to the recipient at the address set forth below, unless that party will have given such written notice of change of address to the sending party, in which event the new address so specified will be used. If mailed, such notice shall be deemed to have been received three days after mailing, and if sent by overnight delivery, such notice shall be deemed to have been received the day following sending.

Us:            Painted Dough Franchise, LLC  
                 5702 Riverside Drive  
                 Chino, CA 91710  
                 ATTN: LLC Manager

You:           As specified in the SUMMARY.

#### 16.11 Terms and Headings

All terms used in this Agreement regardless of the number and gender in which they are used, will be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context or sense of this Agreement may require, the same as if such words had been written in this Agreement themselves. The headings inserted in this Agreement are for reference purposes only and will not affect the construction of this Agreement or limit the generality of any of its provisions. Definitions are presented in boldface solely for ease of reference.

#### 16.12 Compliance with Laws

You will at Your own cost and expense promptly comply with all laws, ordinances, orders, rules, regulations, and requirements of all federal, state and municipal governments and appropriate departments, commissions, boards and offices thereof. Without limiting the generality of the foregoing, You will abide by all applicable rules and regulations of any Public Health Department.

#### 16.13 Entire Agreement

This Agreement and the documents referred to herein constitute the entire agreement between the parties and supersede and cancels any and all prior and contemporaneous agreements, understandings, representations, inducements, and statements, oral or written, of the parties in connection with the subject matter hereof. Nothing in this Agreement or any related agreement is intended to disclaim the representations We have made in Our Franchise Disclosure Document. Except as may be expressly authorized herein, no amendment or modification of this Agreement will be binding unless executed in writing by both parties.

#### 16.14 Amendment or Modification

Except as expressly authorized herein, no amendment or modification of this Agreement will be binding unless executed in writing by both Us and You.

#### 16.15 Acknowledgment

BY INITIALING WHERE INDICATED, YOU EXPRESSLY ACKNOWLEDGE THAT:

(a) YOU HAVE ENTERED INTO THIS AGREEMENT AS A RESULT OF YOUR OWN INDEPENDENT INVESTIGATION, AND AFTER CONSULTATION WITH AN ATTORNEY OR OTHER ADVISOR(S) OF YOUR CHOICE.

YOUR INITIALS:\_\_\_\_\_

(b) THE SUCCESS OF THE FRANCHISED BUSINESS WILL BE LARGELY DEPENDENT UPON YOUR ABILITIES AND EFFORTS, AND WE HAVE MADE NO WARRANTY OR GUARANTEE TO YOU THAT THE FRANCHISED BUSINESS WILL BE SUCCESSFUL OR PROFITABLE.

YOUR INITIALS:\_\_\_\_\_

(c) A COMPLETE COPY OF THIS AGREEMENT AS SIGNED BY YOU WAS RECEIVED BY YOU AT LEAST SEVEN CALENDAR DAYS PRIOR TO ITS EXECUTION BY YOU AND A COMPLETE COPY OF OUR FRANCHISE DISCLOSURE DOCUMENT WAS RECEIVED AT LEAST 14 CALENDAR DAYS PRIOR TO YOUR EXECUTION OF THIS AGREEMENT.

YOUR INITIALS:\_\_\_\_\_

\* \* \* \* \*

(Signatures on Next Page)

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day, month and year first above written.

**You:**

\_\_\_\_\_

\_\_\_\_\_

**Us:**

**PAINTED DOUGH FRANCHISE, LLC**

By: \_\_\_\_\_  
Danny Truong, LLC Manager

**Your Principals:**

Printed Name: \_\_\_\_\_ %Ownership: \_\_\_\_\_

Signature: \_\_\_\_\_

Printed Name: \_\_\_\_\_ %Ownership: \_\_\_\_\_

Signature: \_\_\_\_\_

Printed Name: \_\_\_\_\_ %Ownership: \_\_\_\_\_

Signature: \_\_\_\_\_

**PROTECTED TERRITORY**

The geographic area described below is the Protected Area referred to in Section 1.2 of the Franchise Agreement because the Outlet has been determined by Us to be located within a “**high density area**”:

You:

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Us:

**PAINTED DOUGH FRANCHISE, LLC**

By: \_\_\_\_\_  
Danny Truong, LLC Manager

**ADDENDUM TO LEASE**

The Addendum to Lease ("Addendum"), dated \_\_\_\_\_, 202\_\_\_\_, is entered into between \_\_\_\_\_ ("Landlord") and \_\_\_\_\_ ("Tenant").

**RECITALS**

The parties have entered into a Lease Agreement, dated \_\_\_\_\_ 202\_\_\_\_ (the "Lease"), pertaining to the premises located at \_\_\_\_\_ the "Premises").

The Landlord acknowledges that Tenant intends to operate a ("Restaurant") from the Premises pursuant to Tenant's Franchise Agreement with Painted Dough Franchise, LLC ("Franchisor") dated \_\_\_\_\_ (the "Franchise Agreement"), whereby Tenant will utilize the PAINTED DOUGH Restaurant name and the PAINTED DOUGH Marks as Franchisor may designate in the operation of the Restaurant at the Premises.

Landlord further acknowledges that Franchisor has approved Tenant's request to locate its Restaurant on the Premises that is the subject of the Lease, provided that the conditions and agreements set forth in this Addendum are made a part of the Lease.

**AGREEMENTS**

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree to amend the Lease as follows:

1. Remodeling and Décor

Landlord agrees that Tenant has the right to remodel, equip, paint, and decorate the interior of the Premises and to display such Marks and signs on the interior and exterior of the Premises as Tenant is reasonably required to do pursuant to the Franchise Agreement and any successor Franchise Agreement under which Tenant may operate a Restaurant on the Premises. Any remodel of the building and/or its signs shall be subject to Landlord's prior and reasonable approval.

2. Assignment By Tenant.

(a) Tenant does not have the right to sublease or assign the Lease to any third party without Landlord's and Franchisor's written approval.

(b) So long as Tenant is in good standing under the Lease, Tenant has the right to assign all of its right, title, and interest in the Lease to Franchisor or its affiliates during the term of the Lease, including any extensions or renewals, without first obtaining Landlord's consent. No assignment will be effective, however, until Franchisor or its

designated affiliate gives Landlord written notice of its acceptance of the assignment. Franchisor will be responsible for the Lease obligations incurred after the effective date of the assignment.

(c) If Franchisor elects to assume the Lease, Franchisor shall not be required to begin paying rent until Landlord delivers possession of the Premises to the Franchisor. At any time until the Landlord delivers possession of the Premises, Franchisor shall have the right to rescind the election to assume by written notice to Landlord.

### 3. Default and Notices to Franchisor

(a) Landlord shall send Franchisor copies of all notices of default under the Lease at the same time it provides Tenant with such notice. If Tenant fails to cure any defaults within the period specified in the Lease, Landlord shall promptly give Franchisor written notice thereof, specifying the defaults that Tenant has failed to cure. Franchisor has the right to unilaterally assume the Lease if Tenant fails to cure. Franchisor shall have 15 days from the date Franchisor receives such notice to exercise, by written notice to Landlord and Tenant, its right for Franchisor or its affiliate designee ("Franchise Entity"), to assume the Lease. Franchisor shall have an additional 30 days from the expiration of Tenant's cure period in which to cure the default or violation.

(b) If Franchisor elects to assume the Lease, the Franchisor Entity shall not be required to cure defaults and/or to begin paying rent until Landlord delivers possession of the Premises to the Franchisor Entity. At any time until Landlord delivers possession of the Premises, Franchisor shall have the right to rescind the election to assume by written notice to Landlord.

### 4. Termination of Franchise Agreement; Expiration or Non-Renewal of Lease

(a) If the Franchise Agreement is terminated for any reason during the term of the Lease or any renewal or extension thereof, and if Franchisor desires to assume the Lease, Franchisor shall promptly give Landlord written notice thereof. Within 30 days after receipt of such notice, Landlord shall give Franchisor written notice specifying any defaults of Tenant under the Lease. If Franchisor elects to assume the Lease, Franchisor must cure said defaults consistent with paragraph 3 above.

(b) If the Lease contains term renewal or extension right(s) and if Tenant allows the term to expire without exercising said right(s), Landlord shall give Franchisor written notice thereof, and a Franchisor Entity shall have the option, for 30 days after receipt of said notice, to exercise the Tenant's renewal or extension right(s) on the same terms and conditions as are contained in the Lease. If a Franchisor Entity elects to exercise such right(s), it shall so notify Landlord in writing, whereupon Landlord and the Franchisor Entity shall promptly execute and deliver an agreement whereby the Franchisor Entity assumes the Lease, effective at the commencement of the extension or renewal term.

5. Access to Premises Following Expiration or Termination of Lease

Upon the expiration or termination of the Lease, Landlord will cooperate with and assist Franchisor in gaining possession of the Premises and, if the Franchisor Entity does not elect to assume the Lease for the Premises consistent with subparagraph 3(a) or 4(b) above, Landlord will allow Franchisor to enter the Premises, without being guilty of trespass and without incurring any liability to Landlord except for any damages caused by Franchisor's willful misconduct or gross negligence, to remove all signs and all other items identifying the Premises as a PAINTED DOUGH Restaurant and to make such other modifications (such as repainting) as are reasonably necessary to protect the PAINTED DOUGH Marks and System, and to distinguish the Premises from PAINTED DOUGH Restaurants. In the event Franchisor exercises its option to purchase assets of Tenant, Landlord must permit Franchisor to remove all such assets being purchased by Franchisor.

6. Assumption and Subsequent Assignment By Franchisor

If Franchisor elects the Lease under paragraph 2, or unilaterally assumes the Lease as provided for in paragraphs 3 or 4, Landlord and Tenant agree that:

(a) Tenant will remain liable for the responsibilities and obligations, including amounts owed to Landlord, prior to the date of assignment and assumption. Further, Tenant shall be and remain liable to Landlord for all of its obligations under the Lease, notwithstanding any assignment or assumption of the Lease by Franchisor. Franchisor shall be entitled to recover from Tenant all amounts it pays to Landlord to cure Tenant's defaults under the Lease, including interest and reasonable collection costs.

(b) Franchisor, upon taking possession of the Premises, shall cure any default specified by Landlord within the timeframes noted herein and shall execute and deliver to Landlord its assumption of Tenant's rights and obligations under the Lease. Franchisor shall pay, perform, and be bound by all the duties and obligations of the Lease applicable to Tenant, except that the Franchisor may elect not to assume or be bound by the terms of any Amendment to the Lease executed by Tenant without obtaining Franchisor's prior written approval, which shall not be unreasonably withheld or delayed.

(c) At or after the time Franchisor assumes Tenant's interests under the Lease, the Franchisor may, at any time, assign such interests or sublet the Premises to a Buffalo Spot franchisee. Any such assignment shall be subject to the prior written consent of the Landlord, which Landlord shall not unreasonably withhold as it relates to a creditworthy franchisee who otherwise meets Franchisor's then- current standards and requirements for franchisees and agrees to operate the Restaurant as a PAINTED DOUGH Restaurant pursuant to a Franchise Agreement with Franchisor. Upon receipt by Landlord of an assumption agreement pursuant to which the assignee agrees to assume the Lease and to observe the terms, conditions, and agreements on the part of Tenant to be performed under the Lease, the Franchisor shall thereupon be released from all liability as tenant

under the Lease from and after the date of assignment, without any need of a written acknowledgement of such release by Landlord.

7. Access to Premises During Lease

As provided in the Franchise Agreement, Franchisor shall have the right to access the Premises during continuance of the Lease to ensure compliance by Tenant with its obligations under the Franchise Agreement.

8. Additional Provisions

(a) Landlord hereby acknowledges that the provisions of this Addendum to Lease are required pursuant to the Franchise Agreement under which Tenant plans to operate its business and the Tenant would not lease the Premises without this Addendum.

(b) Landlord further acknowledges that Tenant is not an agent or employee of Franchisor and the Tenant has no authority or power to act for, or to create any liability on behalf of, or to in any way bind Franchisor or any affiliate of Franchisor, and that Landlord has entered into this Addendum to Lease with full understanding that it creates no duties, obligations or liability of or against Franchisor or any affiliate of Franchisor, unless and until the Lease is assigned to, and accepted in writing by Franchisor.

(c) All notices to Franchisor required by this Addendum must be in writing and sent by registered or certified mail, postage prepaid, to the following address:

Painted Dough Franchise, LLC  
5702 Riverside Drive  
Chino, CA 91710  
ATTN: Danny Truong, LLC Manager

Franchisor may change its address for receiving notices by giving Landlord written notice of the new address Landlord agrees that it will notify both Tenant and Franchisor of any change in Landlord's mailing address to which notices should be sent.

9. Sales Reports

If requested by Franchisor, Landlord will provide Franchisor with whatever information Landlord has regarding Tenant's sales from the Restaurant.

10. Conflicts.

In the event of a conflict between the terms of the Lease and the terms set in this Addendum, the terms set forth herein shall govern. In the event of a conflict between notices provided to Landlord by Tenant and Franchisor, the notices of Franchisor shall prevail.

11. Miscellaneous

Any waiver excusing or reducing any obligation imposed by this Addendum shall be in writing and executed by the party who is charged with making the waiver and shall be effective only to the extent specifically allowed in such writing. The language used in this Addendum shall in all cases be construed simply according to its fair meaning and not strictly for or against any party. Nothing in this Addendum is intended, nor shall it be deemed, to confer any rights or remedies upon any person or entity not a party hereto. This Addendum shall be binding upon, and shall inure to the benefit of the successors, assigns, heirs, and personal representatives of the parties hereto. This Addendum sets forth the entire agreement with regard to the rights of Franchisor, fully superseding any and all prior agreements or understandings between the parties pertaining to the subject matter of this Addendum. This Addendum may only be amended by written agreement duly executed by each party.

**IN WITNESS WHEREOF**, this Addendum is made and entered into by the undersigned parties as of \_\_\_\_\_, 202\_\_.

**LANDLORD:** \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Its: \_\_\_\_\_

**FRANCHISEE:** \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Its: \_\_\_\_\_

**GUARANTY AND ASSUMPTION**

For good and valuable consideration, the receipt of which is hereby acknowledged, each of the undersigned (the "**Guarantors**") hereby personally and unconditionally guarantees, jointly and severally, the due, punctual and full payment and full performance of all of the obligations \_\_\_\_\_ ("**Franchisee**") under the foregoing PAINTED DOUGH Franchise Agreement dated \_\_\_\_\_, 202\_\_\_\_ by and between the Franchisee and Painted Dough Franchise, LLC ("**Franchisor**") and hereby individually undertakes to be bound by all of the terms of such Franchise Agreement.

It is the intention of the undersigned that this Personal Guarantee shall be full and absolute. Accordingly, each of the Guarantors hereby waives and agrees not to assert or take advantage of any right or defense based on the absence of any presentment, demand (including demands for performance), notice and protest of each and every kind and of any right to require the Franchisor or its assignee to proceed against Franchisee or any other person or to pursue any other remedy before proceeding against a Guarantor.

This Personal Guarantee applies to, binds and inures to the benefit of the Guarantors and their heirs, devisees, legatees, executors, administrators, representatives, successors and assigns. The Franchisor may assign its rights hereunder without reducing or modifying the liability of any Guarantor hereunder.

IN WITNESS WHEREOF, each of the Guarantors has executed this Personal Guarantee as of the date set forth below.

**GUARANTOR(S)**

By: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Print Name: \_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Print Name: \_\_\_\_\_

Dated: \_\_\_\_\_

## CONFIDENTIALITY AGREEMENT

The undersigned Employee of \_\_\_\_\_ (the “**Employer**”), which has applied for a PAINTED DOUGH franchise from Painted Dough Franchise, LLC (the “**Franchisor**”) or is a PAINTED DOUGH franchisee, hereby agrees that Employee shall not, while employed by Employer or following such employment, communicate to, or use for the benefit of, any other person, persons, partnership, or corporation any confidential information, knowledge, or know-how concerning the methods of operation of a PAINTED DOUGH Outlet, including but not limited to the PAINTED DOUGH Manual (“**Confidential Information**”); provided, however, that the foregoing does not include information which the Employee can demonstrate came to his or her attention prior to being employed by Employer or which has become a part of the public domain through publication or communication by others. Nothing in this agreement prevents Employee from discussing or disclosing information about unlawful acts in the workplace, such as harassment or discrimination or any other conduct that Employer has reason to believe is unlawful.

The Employee acknowledges and agrees that Employer alone will be solely responsible for all hiring and employment decisions and functions relating to Employer’s PAINTED DOUGH Outlet, including those related to hiring, firing, training, establishing remuneration, compliance with wage and hour requirements, personnel policies, benefits, recordkeeping, supervision, and discipline of employees, regardless of whether Employer has received advice from Franchisor on these subjects or not. Employee is not employed by Franchisor.

The Employee agrees to promptly disclose to Employer, any and all ideas, improvements, processes, names, menu items, and enhancements to the franchised business which Employee alone or with others invents, discovers makes or conceives (“**Innovations**”) at any time during, and for a period of one year after employment in a PAINTED DOUGH Outlet. All such Innovations will be deemed the sole and exclusive property of Franchisor. The Franchisor has the right to incorporate such Innovations into the System without compensation to the Employee.

The Employee acknowledges that any failure to comply with the requirements of this Confidentiality Agreement will cause Employer and Franchisor irreparable injury, and Employee agrees that in addition to any other right or remedy provided by law, Employer and/or Franchisor shall be entitled to specific performance of, or an injunction against violation of, the requirements of this Confidentiality Agreement.

The Employee agrees that upon termination of his or her employment with Employer for any reason, Employee will return all copies of documents containing confidential information or trade secrets to Employer, including without limitation PAINTED DOUGH Confidential Manual.

IN WITNESS WHEREOF, the undersigned has executed this document in consideration of his or her employment by Employer.

DATED: \_\_\_\_\_, 202\_\_

Print Name: \_\_\_\_\_

Signature: \_\_\_\_\_

**("Employee")**

# **Exhibit B**



# AREA DEVELOPMENT AGREEMENT

**PAINTED DOUGH  
AREA DEVELOPMENT AGREEMENT  
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# PAINTED DOUGH AREA DEVELOPMENT AGREEMENT

THIS AREA DEVELOPMENT AGREEMENT dated as of \_\_\_\_\_, 202\_\_, is between Painted Dough Franchise, LLC, a California limited liability company (“**We**”, “**Us**” or “**Our**”), on the one hand, and \_\_\_\_\_, a \_\_\_\_\_ organized under the laws of the State \_\_\_\_\_ (“**You**” or “**Your**”), and the person(s) executing this Agreement as “**PRINCIPALS**” (the “**Principals**”), on the other hand.

In consideration of the mutual promises set forth herein, the parties agree as follows:

## ARTICLE 1. GRANT OF DEVELOPMENT RIGHTS

1.1 Development of Territory. We hereby grant to You the right to open and operate PAINTED DOUGH franchise outlets (“**Outlets**”) in the geographic area which is specified in **Exhibit A** attached hereto and incorporated herein by reference (the “**Territory**”).

### 1.2 Your Territorial Rights.

(a) During the term and any extension of this Agreement, We will not (i) license or allow any other party to operate an Outlet within the Territory except one or more “**Non-traditional Venue**” Outlets defined in subsection 2.1(c) below, or (ii) open or operate, directly or indirectly, any Outlets within the Territory (except pursuant to any first refusal rights contained in any Franchise Agreement between You and Us, or as otherwise provided in Article 5 below).

(b) Notwithstanding the foregoing, if You have opened the minimum number of Outlets referred to in Section 2.1 below, and We determine in Our discretion that one or more additional Outlets should be developed within the Territory, We will notify You in writing of such determination and offer You the right of first refusal to develop such Outlet(s) which may be in the. If after 30 days following mailing of such notice, We have not received Your written acceptance of such right of first refusal, We may develop such Outlets within the Territory or authorize other(s) to do so.

1.3 Termination. If this Agreement is terminated as a result of a material breach by You, We will have the full and absolute right to operate or franchise or license other parties to operate the PAINTED DOUGH Outlets within the Territory.

1.4 Other Products and Outlets. You agree that We retain the unrestricted right within the Territory and elsewhere to produce, license, distribute and market products and services using the Marks or other marks through any established distribution channel, at wholesale or retail, including by means of the Internet (or any other existing or future form of electronic commerce), mail order catalogs, direct mail advertising and other distribution

methods. Other distribution channels or methods include, without limitation, grocery stores, club stores, convenience stores, military installations, or industry locations (e.g. manufacturing site, office building). We are not required to pay You for soliciting or accepting orders from inside Your Territory.

1.5 Not Transferable. This Agreement is a personal, non-transferable commitment by You to Us based on the personal confidence reposed by Us in the Principals. Accordingly, both parties agree that any attempt without the prior express written consent of Us to transfer, encumber or assign this Agreement by You or by the Principals in any manner whatsoever will cause the immediate and automatic termination of this Agreement, and We will have no further liability or obligation to You or the Principals pursuant to this Agreement.

1.6 Assumption. This Agreement and Our rights, interests and obligations hereunder may be transferred to the benefit of any entity in whole or part which succeeds to Our business and assumes Our obligations hereunder.

## ARTICLE 2. DEVELOPMENT OF TERRITORY

### 2.1 Development Schedule.

(a) You agree to develop at least a total of \_\_\_\_\_ (\_\_\_\_\_) PAINTED DOUGH Outlets (the “**Required Outlets**”) within the Territory during the term of this Agreement in strict accordance with the Development Schedule set forth in **Exhibit B** attached hereto and incorporated herein by reference (the “**Development Schedule**”).

(b) The Development Schedule contains a specific number of Required Outlets to be opened and operated by You within the Territory during certain time periods. If any Outlets within the Territory are closed for business (except for authorized holidays or temporarily for major repairs or otherwise with Our prior written consent), such Outlets will not be included in computing the number of open and operating Required Outlets and in satisfying the deadlines set forth in the Development Schedule.

(c) The number of Required Outlets for purposes of the Development Schedule will not without Our prior written consent include an Outlet located at a “**Non-Traditional Venue**”, which means a site or location within another primary business or at institutional settings such as schools, colleges and universities, military and other governmental facilities, hospitals or other health care facilities, hotels, limited access highways, shopping malls, airports, toll roads, office or in-plant food facilities, sports arenas and stadiums, supermarkets, grocery stores or convenience stores.

2.2 Deadlines. The parties acknowledge and agree that the deadlines set forth in the Development Schedule are of the essence of this Agreement. No modification or amendment to the Development Schedule or any consent to or waiver of any deadline or other obligation of this Agreement will either (a) create any obligation to grant additional

modifications, amendments, consents, or waivers or (b) be effective unless made by written mutual agreement of the parties.

### **ARTICLE 3. DEVELOPMENT FEE**

3.1 Development Fee. In consideration of Our grant to You of the right to develop PAINTED DOUGH Outlets in the Territory as provided for herein, You agree to pay to Us upon execution of this Agreement the Initial Franchise Fee for the first Required Outlet plus \$10,000 for each additional Required Outlet (the “**Development Fee**”). The Development Fee is non-refundable and is fully earned by Us upon Our execution hereof as a result of the grant of rights to You and Our forbearance from developing the Territory Ourselves or through other parties. You will not be entitled to a refund of such fee under any circumstances.

3.2 Amount of Fee. The total Development Fee to be paid by You upon execution of this Agreement is \$\_\_\_\_\_.

### **ARTICLE 4. DEVELOPMENT PROCEDURES**

4.1 Mandatory Compliance. You must at all times remain in compliance with this Agreement and all Franchise Agreements issued for Outlets developed hereunder. We will not approve any pending franchise application or site approval request by You for additional Outlet(s) if You are in material breach of any Franchise Agreement.

4.2 Site Approval. You will utilize Your own financial, real estate, construction and any other resources required to develop Outlets using architects, contractors, and vendors previously approved by Us. You agree to comply with the requirements of the Franchise Agreement and any additional requirements provided for in the Manual.

4.3 Franchise Agreements and Fees. You will receive \$10,000 credit from the Development Fee toward the Initial Franchise Fee for each Required Outlet, except that the total Initial Franchise Fee for the first Required Outlet will be included in the Development Fee.

You must pay the balance of the Initial Franchise Fee and execute Our then-current form of PAINTED DOUGH Franchise Agreement for each other Required Outlet. For the second and each of the other Required Outlets opened pursuant to Your Development Schedule, the Outlet’s Initial Franchise Fee and Royalties will be the same as those contained in Your first Required Outlet.

4.4 Confidentiality; Our Property. You agree that We own all rights in and to the System, including the information and materials described or contained in the Manual, and that the System and Manual contain trade secrets and themselves constitute Our trade secrets which have been or will be revealed to You in confidence. You agree not to

disclose, duplicate, license, sell or reveal any portion thereof to any other person, except Your Principals and representatives. You agree to obtain from each of the Principals and Your representatives a Confidentiality Agreement in the form attached hereto as **Exhibit C** and incorporated herein by reference. You agree to comply fully with the terms of such Confidentiality Agreement. A copy of all such signed agreements shall be delivered to Us within one week of their execution.

#### 4.5 Development Principal.

(a) The individual named in this Section must be an experienced professional with multi-unit Outlet supervisory experience who, will devote his or her full time, best efforts and constant personal attention to the development of the Required Outlets, with full authority to act on Your behalf and on behalf of the Principals with regards to the operation of Your Required Outlets: \_\_\_\_\_  
(the "**Development Principal**").

(b) The Development Principal must be at all times approved by Us and certified by Us as fully trained for development and Outlet operations. Certification and approval of the Development Principal includes both satisfactory completion of Our Training Program, and also working sufficient additional time in a company-operated Outlet, as we deem necessary in our sole discretion, to successfully develop and operate an Outlet. Failure of the Development Principal to successfully complete this training and the additional in-Outlet assignment to Our satisfaction constitutes a material breach of this Agreement. Any change in the identity of Your Development Principal must be approved by Us in writing.

### **ARTICLE 5. EXISTING OUTLETS; ACQUISITIONS**

#### 5.1 Company Outlets.

(a) If We or another entity under common control with Us ("**Affiliate**") currently operate PAINTED DOUGH Outlets within the Territory, such Outlets are specified in **Exhibit A** attached hereto and incorporated herein by reference ("**Company Outlets**") and any present or proposed franchised Outlets in the Territory will also be specified in **Exhibit A** as ("**Franchised Outlets**").

(b) Unless You are purchasing the Company Outlets or Franchised Outlets pursuant to separate agreement, You agree that Company Outlets and Franchise Outlets may continue to be operated as PAINTED DOUGH Outlets notwithstanding their location in the Territory. In any event, such Outlets will not be included under any circumstances toward meeting Your development obligations hereunder.

## 5.2 Acquisitions; First Right of Refusal.

(a) We may during the term hereof acquire a chain of outlets from a third party with the intention of converting some or all of such outlets to PAINTED DOUGH Outlets, in which event You agree that We may so convert any of such outlets located within the Territory so long as We satisfy the following conditions:

- (i) We will first send You a written offer to purchase all such outlets within the Territory at Our total acquisition cost (including without limitation "soft" costs as defined below) for such Outlets.
- (ii) You will have thirty days from the date such offer is sent to accept such offer, and until You have either rejected such offer or such thirty-day period has lapsed, no conversion or other offer to third parties will be made by Us.
- (iii) Your failure to accept such offer within such thirty-day period will constitute a rejection.

(b) If You have accepted the above offer and converted such outlet(s) to Our satisfaction, such outlets(s) will apply toward meeting Your development obligations under the Development Schedule. If We convert or franchise another party to convert such outlets, such outlets will not have any effect on Your obligations under the Development Schedule.

(c) For purposes herein, "**soft costs**" will mean all internal and external costs incurred by Us in connection with the acquisition. These will include, without limitation, cost of funds, personnel time (e.g., in analyzing, negotiating, approving and permitting the acquisition, etc.), and out-of-pocket expenses (e.g., travel, lodging, meals, professional fees to attorneys, architects, engineers, etc.) in connection with the acquisition as applied pro rata to each Outlet being offered to You.

## 6. TERM; RENEWAL

6.1 Term. (a) The initial term of this Agreement expires \_\_\_\_ years from the date set forth above, or if initialed, on the date set forth below:

\_\_\_\_\_, 202\_\_.

(b) Notwithstanding the foregoing, the term of this Agreement immediately expires when all Required Outlets under the Development Schedule are open and operating in compliance with this Agreement.

6.2 No Right to Renew. You do not have the right to renew this Agreement. However, at least six (6) months and not more than twelve (12) months before the term of this Agreement expires, You may apply for a new Area Development Agreement for the same Territory or another development area. After the term of this Agreement, if We

do not decide, in Our sole discretion, to sign a new area development agreement with You, then We, a new area developer, or any franchisee franchised by Us may develop and operate additional Outlets in the Development Territory, subject to the territorial rights in Your existing Franchise Agreements. If granted, the new area development agreement, which may vary substantially from this Agreement, will include a new development schedule.

## ARTICLE 7. DEFAULT

7.1 No opportunity to Cure. (a) TIME IS OF THE ESSENCE of this Agreement. Your failure to meet any deadline set forth in the Development Schedule will constitute a material default under this Agreement without any opportunity to cure such default or notice under Section 7.2 hereof. If You fail to meet such a deadline, We may at any time thereafter immediately terminate this Agreement effective upon written notice from Us. The termination of this Agreement will have no effect on any franchises previously issued to You or on franchises to be issued for sites where We have already approved the site and the franchise.

(b) You shall be deemed in default under this Agreement, and all rights granted herein shall automatically terminate, without notice to You, if You become insolvent or makes a general assignment for the benefit of creditors; if You file a petition in bankruptcy or such a petition is filed against and consented by You; if You are adjudicated bankrupt or insolvent; if a bill in equity or other proceeding for the appointment of a receiver of You or other custodian for Your business or assets is filed and consented to by You; if a receiver or other custodian (permanent or temporary) of Your business or assets or any part thereof is appointed by any court of competent jurisdiction; if proceedings for a composition with creditors under any state or federal law should be instituted by or against You; if a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless supersedeas bond is filed); if execution is levied against Your business or assets; if suit to foreclose any lien or mortgage against the premises or equipment is instituted against You and not dismissed within thirty (30) days; or if the real or personal property of any of Your (or an affiliate's) Outlet(s) shall be sold after levy thereupon by any sheriff, marshal or constable.

7.2 Curable Default. We will have the right to terminate this Agreement upon thirty (30) days written notice to You if You fail to perform any of Your non-payment material obligations contained in this Agreement and fail to cure such failure within thirty (30) days of Your receipt of such notice. We will have the right to terminate this Agreement upon five (5) days written notice to You if You fail to perform any payment obligation contained in this Agreement and fail to cure such failure within five (5) days of Your receipt of such notice.

7.3 Other Defaults. A default by You under any PAINTED DOUGH Franchise Agreement developed under this Agreement will constitute a material default under this Agreement, in which event We may terminate this Agreement unless such default is timely cured in accordance with the term of the pertinent Franchise Agreement or applicable law.

7.4 Requirements Upon Termination. Upon termination or expiration of this Agreement, You shall have no right to establish or operate any Outlet for which a Franchise Agreement has not been executed by Us at the time of termination or expiration. We shall have the right to establish and operate, and to license others to establish and operate, one or more Outlets in the Territory, except as may be otherwise provided under any executed Franchise Agreement. You shall comply with the confidentiality covenants set forth in Article 4 and all Franchise Agreements entered into under this Agreement and upon request immediately deliver to Us all copies of the Manual and any items bearing the Marks or which are confidential.

## **ARTICLE 8. LEGAL ENTITY; RESTRICTIONS; COVENANTS**

8.1 Definition of Principals. For purposes of this Article 8, the term "**Principals**" will include the persons executing this Agreement as Principals, their spouses, minor children, or any trust for the benefit of such persons. We have an unrestricted right to approve all owners and any future owners.

8.2 Personal Guarantees. Unless We have given Our written consent to the contrary, each of the Principals signing this Agreement hereby personally guarantees, jointly and severally, the full payment and performance of Your obligations under this Agreement and under each and every Franchise Agreement to be entered into pursuant hereto.

8.3 Authorized Principal. You and the Principals appoint the following person with full authority (the "**Authorized Principal**") to act on Your behalf and on behalf of the Principals in regard to performing, administering or amending this Agreement and any and all Franchise Agreements related to it: \_\_\_\_\_  
We may deal completely with the Authorized Principal in such regard unless and until Our actual receipt of written notice from You of the appointment of a successor to the Authorized Principal.

YOUR INITIALS: \_\_\_\_\_

8.4 Form of Legal Entity. (a) If You are organized under applicable law as a legal entity such as a corporation, partnership or limited liability company (hereinafter referred to as a "**Legal Entity**"), the Principals must notify Us of the form of such Legal Entity and have received Our written approval and You must comply with this Subsection 8.5 and any other condition which We may require. We have an unrestricted right to approve all equity owners and any future owners. The organization documents must be promptly submitted for Our review.

(b) Unless We provide prior written consent to the contrary, the Legal Entity must satisfy the following conditions and such other conditions as We may require under the circumstances:

- (i) The Legal Entity must be closely held with the single purpose of developing and operating PAINTED DOUGH Outlets.
- (ii) The Principal(s) (as defined in Section 8.1 above) will collectively own and control not less than fifty-one percent (51%) of the voting rights of the Legal Entity or otherwise satisfy Us that the Principals have operational control of the Legal Entity.
- (iii) Each person designated as Developer Principal and Authorized Principal must own at least ten percent (10%) of the ownership interests of the Legal Entity.
- (vi) Not more than twenty percent (20%) in the aggregate of the voting rights of the Legal Entity will be owned beneficially or of record by institutional firms or publicly held corporations.
- (v) There will be no public offerings of debt or equity ownership by or in the Legal Entity without Our prior written consent and approval.
- (vi) Prior to the end of \_\_\_\_ days after the date of this Agreement, at least \$100,000 times the number of Required Outlets (\$\_\_\_\_\_) cash will be invested in Your Legal Entity, which will be its minimum start up capitalization. You agree to furnish Us with written evidence of such investment on or before the above date.
- (vii) You must at all times maintain in the Legal Entity (A) positive working capital and (B) a net worth of at least \$100,000 multiplied by the number of Required Outlets developed hereunder.
- (viii) There will not be more than five (5) owners of the Legal Entity in addition to the Principals without Our prior written consent and approval.
- (ix) All persons with a 10% or greater interest in You must execute the Personal Guaranty in the form attached hereto as **Exhibit D**.
- (x) You have provided Us with such documentation as We have requested to evidence the foregoing.

(c) Throughout the term of this Agreement, the Legal Entity will not make any transfer of value to any of its beneficial or record owners or any affiliate of such owner ("**Owner**") which would create negative working capital or would cause the net worth of the Legal Entity to be less than \$100,000.00 multiplied by the number of Required Outlets to be developed hereunder. Similarly, there will at no time be any transfer of value to any Owner unless You are fully current in all payments to Us and Our Affiliates and all Advertising Cooperatives in the Territory. For purposes herein, "**transfer of value**" will include but not be limited to gifts, bonuses, salaries, benefits or other compensation, dividends of any nature, loans, cancellation of debt, purchases or sales, or similar transfers.

(d) You must notify Us of any proposed issuance or transfer of an ownership interest in the Legal Entity, and We will have thirty (30) days after receipt of such notice to disapprove such intended issuance or transfer. Such disapproval must be reasonable and based on the transferee's being involved with other parties in competition with PAINTED DOUGH Outlets or having a known history, reputation or character which is

adverse to the interests of PAINTED DOUGH Outlets. Each such notice from You must identify the proposed transferor and transferee and provide a complete and accurate description of the proposed transferee sufficiently detailed to allow Us to make a reasoned decision of approval or disapproval.

(e) Notwithstanding anything to the contrary contained in this Section 8.4, a transfer of ownership interest in the Legal Entity which involves only a transfer between or among the Principals, entities wholly owned and controlled by the Principals or any of them or entities controlled by any Principal for the benefit of members of his or her immediate family shall not require Our prior written approval so long as the other requirements of this Section 8.4 are satisfied and We receive prior written notice of such transfer together with complete details regarding the ownership and legal structure of the transferee(s). We will not unreasonably withhold approval of any transfer so long as the Principals maintain operational control of Your Legal Entity.

(f) The organization documents of the Legal Entity will contain the restrictions set forth in this Section 8.4. You will cause to be printed on each certificate or other document of ownership of the Legal Entity a legend referencing the restrictions contained herein, which will read substantially as follows:

"Transfer of ownership in this company is subject to the terms and conditions of PAINTED DOUGH Area Development Agreement and Franchise Agreement(s).

Reference is made to such Agreements and to the restrictive provisions contained in this company's organization documents."

(g) You agree at Our request to furnish information, execute forms, and take all such action as requested by Us, to provide Us with such documentation to support this ARTICLE 8. You agree to provide Us with such documentation within fifteen (15) days after receipt of such request.

8.5 Financial Statements. You and the Principals agree that each will furnish Us every year during the term hereof a certified copy of annual financial statements in the form set forth in Our Manual. Such financial statements must be received by Us not later than one hundred twenty (120) days after the last day of each fiscal year. Any amendments to such information will be sent to us promptly. TIME IS OF THE ESSENCE with respect to completion and submission of each such document.

8.6 Security Interest. You may not grant a security interest in this Agreement or in any PAINTED DOUGH Franchise Agreement to any third party.

8.7 Best Efforts. You covenant that during the term of this Agreement that You and Your Principals shall devote full time, energy, and best efforts to fulfilling the obligations under this Agreement, including the development of the Required Outlets pursuant to the Development Schedule.

8.8 In-Term Covenants. You and Your Principals specifically acknowledge that, pursuant to this Agreement, You and Your Principals will receive valuable, specialized training and confidential information, including, without limitation, information regarding Our operational, sales, promotional, and marketing methods and techniques and the System. You and Your Principals covenant that during the term of this Agreement, except as otherwise approved in writing by Us, shall not, either directly or indirectly, for yourselves, or through, on behalf of, or in conjunction with any person, persons, or legal entity:

- (i) Divert or attempt to divert any present or prospective business or customer of any Outlet to any competitor, 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 Our Proprietary Marks and the System; or
- (ii) Directly or indirectly, own, maintain, operate, engage in, be employed by, provide any services or assistance to, finance, or have any interest in (as owner or otherwise) any outlet which is similar to or competitive with the business of PAINTED DOUGH Outlets ("**Similar Business**") anywhere.
- (ii) The prohibitions of this Section 8.8 shall not apply to Your interests in or operation of a PAINTED DOUGH Outlet under an effective Franchise Agreement.

8.9 Post-Term Covenants. You and Your Principals covenant that, except as otherwise approved in writing by Us, You and Your Principals shall not, for a continuous uninterrupted period of two (2) years commencing upon the later of (a) expiration of this Development Agreement, (b) termination of this Development Agreement (regardless of the cause for termination), or (c) a final order of a court of competent jurisdiction (after all appeals have been taken) with respect to any of the foregoing or with respect to enforcement of this Section 8.9, either directly or indirectly, for yourselves, or through, on behalf of, or in conjunction with any person or legal entity, own, maintain, operate, engage in, be employed by, provide services or assistance to, finance, or have any interest in (as owner or otherwise) any Similar Business which is, or is intended to be, located within (i) the Territory, (ii) within 10 miles of the Territory, or (iii) within 10 miles of any business operating under the Marks. The prohibitions of this Section 8.9 shall not apply to Your interests in or operation of a PAINTED DOUGH Outlet under an effective Franchise Agreement.

8.10 No Defense. You and Your Principals expressly acknowledge that the existence of any claims which You or Your Principals may have against Us, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Us of the covenants in Section 8.8 or 8.9.

8.11 Irreparable Injury. You and Your Principals acknowledge that any violation of the terms of Section 8.8 or 8.9 would result in irreparable injury to Us for which no adequate remedy at law may be available; and You and Your Principals accordingly

consent to the issuance of, and agrees to pay all court costs and reasonable attorneys' fees incurred by Us in obtaining, an injunction prohibiting any conduct by You and Your Principals in violation of the terms of Section 8.8 or 8.9.

## **ARTICLE 9. MISCELLANEOUS**

9.1 No Effect. The waiver by Us of any breach or default, or series of breaches or defaults, of any term, covenant, or condition herein or of any same or similar term, covenant or condition in any other agreement between Us and any developer will not be deemed a waiver of any subsequent or continuing breach or default of the same or any other terms, covenants or conditions contained in this Agreement, or in any other agreement between Us and any developer.

9.2 Right and Remedies. All of Our rights and remedies will be cumulative and not alternative, in addition to and not exclusive of any other rights or remedies provided for herein or which may be available at law or in equity in case of any breach, failure or default or threatened breach, failure or default of any term, provision or condition of this Agreement. Our rights and remedies will be continuing and not exhausted by any one or more uses thereof and may be exercised at any time or from time to time as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or taken at any time and from time to time. The expiration or earlier termination of this Agreement will not discharge or release You from any liability or obligation then accrued or any liability or obligation continuing beyond or arising out of the expiration or earlier termination of this Agreement.

9.3 Consents. Whenever the consent of a party is sought or required hereunder, such consent will not be unreasonably withheld.

9.4 Partial Invalidity. If any part of this Agreement will for any reason be declared invalid, unenforceable or impaired in any way, the validity of the remaining portions will not be affected thereby, and such remaining portions will remain in full force and effect as if this Agreement had been executed with such invalid portion eliminated. It is hereby declared the intention of the parties that they would have executed the remaining portion of this Agreement without including therein any such portions which might be declared invalid; provided, however, that in the event any part hereof relating to the payment of fees to Us, or the preservation of the Marks, trade secrets or secret formulae licensed or disclosed hereunder is for any reason declared invalid or unenforceable, then We will have the option of terminating this Agreement upon written notice to You.

### **9.5 Arbitration; Jurisdiction**

(a) Except as set forth in Section 9.5(d), any unresolved dispute between the parties arising out of this Agreement shall be submitted to binding arbitration pursuant to the rules of the American Arbitration Association applicable to commercial arbitrations and the Federal Arbitration Act. The parties may agree to arbitration before another body,

but the decision must be mutually agreed upon or arbitration must remain before AAA. Any arbitration must be conducted by a single arbitrator with at least five (5) years of significant experience in franchise law. Such arbitration shall be held within the county in which Our corporate headquarters are located (the "**Home County**") (currently San Bernardino County, California).

(b) At the conclusion of the arbitration, the arbitrator must deliver to the parties a written statement of conclusions of fact and conclusions of law supporting the final award of the arbitrator. Any party may move for judicial confirmation, modification, or correction of the final award of the arbitrator within 60 days after receipt thereof. Alternatively, judgment upon such decision may be entered in any court having jurisdiction over the matter. Arbitrators shall apply the law of the state where Your Territory is located (without giving effect to any conflict of law principles) as set forth in Section 9.7 below.

(c) Any arbitration must be on an individual basis and the parties, and the arbitrator will have no authority or power to proceed with any claim as a class action or otherwise to join or consolidate any claim with any other claim or any other proceeding involving third parties. In the event a court determines that this limitation on joinder of or class action certification of claims is unenforceable, then this entire commitment to arbitrate will become null and void and the parties must submit all claims to the jurisdiction of the courts.

(d) Notwithstanding the foregoing, any action by Us which involves Your continued usage of any of the Marks or the System or an issue involving injunctive relief, may be submitted to a court in the Home County having jurisdiction over the issue involved. You and We expressly consent to personal jurisdiction in the Home County and agree that such court(s) shall have exclusive jurisdiction over any issues not subject to arbitration.

9.6 Attorney Fees. If either party initiates any legal proceeding which involves issues arising out of this Agreement, the prevailing party in such action will be paid its reasonable attorneys' fees and costs by the other party.

9.7 Governing Law. The parties agree that except for conflict of laws issues, the law of the state where most of the Territory is located will apply to the construction and enforcement of this Agreement and govern all questions which arise with reference hereto with the following exceptions: (a) the arbitration clause will be exclusively governed by and construed according to the Federal Arbitration Act; and (b) trademark rights will be governed by and construed according to the Lanham Act.

9.8 Notices. All notices and other communications required or permitted to be given hereunder will be deemed given when delivered in person, sent by an established overnight delivery service, or mailed by registered or certified mail addressed to the recipient at the address set forth below, unless that party will have given such written notice of change of address to the sending party, in which event the new address so

specified will be used. If mailed, such notice shall be deemed to have been received three days after mailing, and if sent by overnight delivery, such notice shall be deemed to have been received the day following sending.

Us: Painted Dough Franchise, LLC  
5702 Riverside Drive  
Chino, California 91710  
Attn: LLC Manager

You: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

9.9 Terms and Headings. All terms used in this Agreement regardless of the number and gender in which they are used, will be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context or sense of this Agreement may require, the same as if such words had been written in this Agreement themselves. All terms used herein shall have their customary meanings unless specified to the contrary. The headings inserted in this Agreement are for reference purposes only and will not affect the construction of this Agreement or limit the generality of any of its provisions. Words in boldface are done so for ease of reference only.

9.10 Entire Agreement. This Agreement and the documents referred to herein constitute the entire agreement between the parties and supersede and cancels any and all prior and contemporaneous agreements, understandings, representations, inducements, and statements, oral or written, of the parties in connection with the subject matter hereof. Nothing in this Agreement or any related agreement is intended to disclaim the representations We have made in Our Franchise Disclosure Document. Except as may be expressly authorized herein, no amendment or modification of this Agreement will be binding unless executed in writing by both parties.

9.11 Force Majeure. Neither Us, Our Affiliates, nor You shall be responsible or liable for any delays in the performance of any duties under this Agreement to the extent such are not the fault or within the reasonable control of that party including, but not limited to, the inability of Us or Our Affiliates to manufacture or distribute equipment or products, fire, flood, natural disasters, acts of God, delays in deliveries, governmental acts or orders, late deliveries of products or furnishing of services by third party vendors, civil disorders, or strikes and any other labor-related disruption, and in any event said time period for the performance of an obligation hereunder shall be extended for the amount of time of the delay or impossibility. Provided, however, this clause shall not apply to and not result in an extension of: (1) the time for payments to be made hereunder; or (2) the term of this Development Agreement.

9.12 Relationship. You acknowledge that You are an independent business and solely responsible for the development of Your Territory and management of the Required Outlets. You are not and will not represent or hold Yourself out as being an agent, legal representative, joint venture, partner, employee, or servant of Us for any purpose whatsoever and, where permitted by law to do so, will file a business certificate to such effect with the proper recording authorities. You are an independent contractor and are not authorized to make any statement or commitment on behalf of Us, or to create any obligation, express or implied, on behalf of Us. You agree that We are not in any way a "fiduciary" in regard to You. You will not use the name PAINTED DOUGH or any similar word as part of the name of a corporation or other business entity directly or indirectly associated with You, unless otherwise authorized by Us in writing.

9.13 Indemnification. You shall indemnify, defend, and hold harmless Us, Our Affiliates, and their respective partners, shareholders, officers, directors, agents, attorneys, accountants and employees harmless, against any and all claims, losses, lawsuits, liens, demands, costs, expenses, liabilities and damages arising directly or indirectly from, as a result of, or in connection with Your operations hereunder. You shall reimburse Us, Our Affiliates, and their respective partners, shareholders, officers, directors, agents, attorneys, accountants and employees for any expenses or costs any such party incurs as the result of a claim covered by the Your indemnification obligation.

9.14 Restricted Knowledge; Benefit

(a) Each of the parties hereto agrees that the terms and conditions of this Agreement are confidential and restricted to the knowledge of the parties and their respective attorneys, accountants, advisors and only other persons whose knowledge of this Agreement are necessary for the implementation of the transaction contemplated hereby.

(b) The terms hereof are intended only to benefit the parties to this Agreement, and no one else is entitled to any benefits as a result of this Agreement or its terms and conditions.

9.15 Acknowledgment.

BY INITIALING WHERE INDICATED, YOU EXPRESSLY ACKNOWLEDGE THAT:

(a) YOU HAVE ENTERED INTO THIS AGREEMENT AS A RESULT OF YOUR OWN INDEPENDENT INVESTIGATION, AFTER CONSULTATION WITH AN ATTORNEY OR OTHER ADVISOR(S) OF YOUR CHOICE.

YOUR INITIALS:\_\_\_\_\_

(b) THE SUCCESS OF THE FRANCHISED BUSINESSES WILL BE LARGELY DEPENDENT UPON THE ABILITIES AND EFFORTS OF YOU AND THE PRINCIPALS, AND WE HAVE MADE NO WARRANTY OR GUARANTEE TO YOU THAT THE FRANCHISED BUSINESSES WILL BE SUCCESSFUL OR PROFITABLE.

YOUR INITIALS:\_\_\_\_\_

(c) A COMPLETE COPY OF THIS AGREEMENT AS SIGNED BY YOU WAS RECEIVED BY YOU AT LEAST 7 CALENDAR DAYS PRIOR TO ITS EXECUTION BY YOU, AND A COMPLETE COPY OF OUR FRANCHISE DISCLOSURE DOCUMENT WAS RECEIVED AT LEAST 14 CALENDAR DAYS PRIOR TO YOUR EXECUTION OF THIS AGREEMENT.

YOUR INITIALS:\_\_\_\_\_

\* \* \* \* \*

(Signatures on Next Page)

IN WITNESS WHEREOF, the parties have executed the Agreement as of the day, month and year first above written.

**Sign here if the Area Developer is one or more individuals:**

**“You”**

Print Name: \_\_\_\_\_ Print Name: \_\_\_\_\_

Signature: \_\_\_\_\_ Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_ Print Name: \_\_\_\_\_

Signature: \_\_\_\_\_ Signature: \_\_\_\_\_

**Sign here if the Area Developer is a legal entity:**

You: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

**Principals:**

Printed Name: \_\_\_\_\_ %Ownership: \_\_\_\_\_

Signature: \_\_\_\_\_

Printed Name: \_\_\_\_\_ %Ownership: \_\_\_\_\_

Signature: \_\_\_\_\_

PAINTED DOUGH FRANCHISE, LLC

By \_\_\_\_\_  
Danny Truong, LLC Manager

**EXHIBIT A**

**TERRITORY**

Your Name:

Description of Territory:

Existing Outlets (if any):

APPROVED:

YOU: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

US: PAINTED DOUGH FRANCHISE, LLC

By: \_\_\_\_\_  
Danny Truong, LLC Manager

**EXHIBIT B****DEVELOPMENT SCHEDULE**

1. PAINTED DOUGH Outlets Development. We have granted to you the right to develop and operate and You agree to develop and operate a minimum number of \_\_\_\_\_ (\_\_) PAINTED DOUGH franchise Outlets in accordance with the terms of the Agreement.

2. Development Obligations. You agree to have the minimum number of PAINTED DOUGH Outlets open in the Development Area during the Development Periods and in operation at the end of each of the Development Periods listed below:

| DEVELOPMENT PERIOD | DEVELOPMENT REQUIREMENTS               |                                                                                 |
|--------------------|----------------------------------------|---------------------------------------------------------------------------------|
| ENDING ON:         | TO BE OPENED DURING DEVELOPMENT PERIOD | CUMULATIVE NUMBER OF OUTLETS OPEN AND IN OPERATION AT END OF DEVELOPMENT PERIOD |
|                    |                                        |                                                                                 |
|                    |                                        |                                                                                 |
|                    |                                        |                                                                                 |
|                    |                                        |                                                                                 |
|                    |                                        |                                                                                 |

APPROVED:

YOU: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

US: PAINTED DOUGH FRANCHISE, LLC

By: \_\_\_\_\_

Danny Truong, LLC Manager

CONFIDENTIALITY AGREEMENT

In consideration of receiving information regarding the operation of PAINTED DOUGH Outlets (the "**Outlets**") the undersigned ("**Recipient**") agrees that:

1. Recipient will not (a) make unauthorized copies of, (b) disclose to any unauthorized person or (c) use for Recipient's benefit or a PAINTED DOUGH competitor's benefit any trade secrets or confidential information, knowledge or know-how about the methods of operating the Outlets ("**Confidential Information**") except only for information which Recipient can show was known by him or her before receiving such information from Painted Dough Franchise, LLC or information which has become a part of the public domain through publication or communication by others.

2. Recipient agrees that any breach of this Confidentiality Agreement will cause PAINTED DOUGH operators irreparable injury and agrees that in addition to any other right or remedy provided for by law or equity, Painted Dough Franchise, LLC shall be entitled to specific performance of, or an injunction against violation of, this Confidentiality Agreement.

3. Recipient agrees that upon request he or she will return immediately all copies of any PAINTED DOUGH Manuals and other documents containing Confidential Information to Painted Dough Franchise, LLC.

4. Recipient agrees that the covenants included herein survive the expiration or termination of the Area Development Agreement.

IN WITNESS WHEREOF, the undersigned has executed this document as of the date set forth below.

DATED: \_\_\_\_\_

Print Name: \_\_\_\_\_

Signature: \_\_\_\_\_

## PERSONAL GUARANTY

This Personal Guaranty is given to induce Painted Dough Franchise, LLC (the "**Franchisor**") to enter into that certain PAINTED DOUGH Area Development Agreement, dated \_\_\_\_\_, 202\_\_\_\_ with \_\_\_\_\_ (**"Area Developer"**).

For good and valuable consideration, the receipt of which is hereby acknowledged, each of the undersigned (the "**Guarantors**") hereby personally guarantees, jointly and severally, the due, punctual and full payment and performance of each and all of the obligations of Area Developer, including, without limitation, all obligations arising out of the Area Development Agreement and any other agreement; including, without limitation, all PAINTED DOUGH Franchise Agreements entered into under the Area Development Agreement, and hereby individually undertakes to be bound by all of the terms of such agreements.

It is the intention of the undersigned that this Personal Guaranty shall be full and absolute. Accordingly, each of the Guarantors hereby waives and agrees not to assert or take advantage of any right or defense based on the absence of any presentment, demand (including demands for performance), notice and protest of each and every kind and of any right to require Franchisor or its assignee to proceed against Area Developer or any other person or to pursue any other remedy before proceeding against a Guarantor.

This Personal Guaranty applies to, binds and inures to the benefit of the Guarantors and their heirs, devisees, legatees, executors, administrators, representatives, successors and assigns. The Franchisor may assign its rights hereunder without reducing or modifying the liability of any Guarantor hereunder.

In connection with any litigation or arbitration to determine Guarantors' liability under this Personal Guaranty, Guarantors expressly waive Guarantors' right to trial by jury, if any, and agree to pay costs and reasonable attorney's fees as fixed by the court or arbitrator.

\* \* \* \* \*

IN WITNESS WHEREOF, each of the Guarantors has executed this Personal Guaranty on \_\_\_\_\_ [date].

**“Guarantors”**

Print Name: \_\_\_\_\_

Print Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

Print Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

# **Exhibit C**

## EXHIBIT C

### **CONFIDENTIALITY AGREEMENT** **(OPERATIONS MANUAL)**

This Confidentiality Agreement dated as of \_\_\_\_\_, 202\_\_\_\_ by and between the undersigned ("You" and "Your") and Painted Dough Franchise, LLC ("Franchisor"), with respect to Your request to review its Operations Manual ("Manual") prior to purchasing a franchise.

1. Franchisor agrees to allow You to review the Manual in consideration of Your execution of this Agreement.

2. You agree that the Franchisor considers the Manual to be confidential and proprietary information which may not be disclosed to other parties. Accordingly, You agree that You will not disclose its contents in whole or part to any other person without the prior written consent of the Franchisor. You will not make retain any copies or reproductions of any nature of the Manual.

3. You acknowledge that the restrictions contained in this Agreement are reasonable and necessary to protect Franchisor's legitimate interests in the Manual and that any breach by You of this Agreement will result in irreparable injury to Franchisor for which a remedy at law would be inadequate. Accordingly, You agree that Franchisor shall be entitled to temporary, preliminary, and permanent injunctive relief against You, without the necessity of posting bond, in the event of any breach or threatened breach by You of this Agreement, in addition to any other remedy that may be available to Franchisor whether at law or in equity.

AGREED:

\_\_\_\_\_

Printed Name: \_\_\_\_\_

PAINTED DOUGH FRANCHISE, LLC

By: \_\_\_\_\_

Title: \_\_\_\_\_

# **Exhibit**

# **D**

**NAMES AND ADDRESSES OF AGENTS FOR SERVICE OF PROCESS  
AND STATE REGULATORY AUTHORITIES**

| <b>STATE</b> | <b>AGENTS FOR SERVICE OF PROCESS</b>                                                                                                                                                                               | <b>REGULATORY AUTHORITIES</b>                                                                                                                                                                                          |
|--------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CALIFORNIA   | Danny Truong, LLC Manager<br>5702 Riverside Drive<br>Chino, CA 91710<br>(626) 231-1075                                                                                                                             | Department of Financial Protection & Innovation<br>320 West 4th Street, Suite 750<br>Los Angeles, CA 90013-2344<br>(213) 576-7505 or (866) 275-2677                                                                    |
| HAWAII       | Commissioner of Securities<br>Department of Commerce & Consumer Affairs<br>Business Registration Division<br>Securities Compliance Branch<br>335 Merchant Street, Room 203<br>Honolulu, HI 96813<br>(808) 586-2722 | Securities Compliance Branch<br>Department of Commerce and Consumer Affairs<br>Business Registration Division<br>Securities Compliance Branch<br>335 Merchant Street, Room 203<br>Honolulu, HI 96813<br>(808) 586-2722 |
| ILLINOIS     | Illinois Attorney General<br>Franchise Division<br>500 South Second Street<br>Springfield, IL 62706<br>(217) 782-4465                                                                                              | Chief, Franchise Bureau<br>Illinois Attorney General<br>500 South Second Street<br>Springfield, IL 62706<br>(312) 814-3892                                                                                             |
| INDIANA      | Secretary of State<br>Administrative Offices<br>201 State House<br>Indianapolis, IN 46204                                                                                                                          | Securities Commissioner<br>Securities Division, Room E-111<br>302 West Washington Street<br>Indianapolis, IN 46204<br>(317) 232-6681                                                                                   |
| MARYLAND     | Maryland Securities Commissioner<br>Securities Division<br>200 St. Paul Place<br>Baltimore, MD 21202-2020                                                                                                          | Maryland Attorney General<br>Office of the Attorney General<br>200 St. Paul Place<br>Baltimore, MD 21202<br>(410) 576-6360                                                                                             |
| MICHIGAN     | Michigan Department of Commerce,<br>Corporations and Securities Bureau<br>525 W. Ottawa<br>670 Law Building<br>Lansing, MI 48913                                                                                   | Franchise Administrator<br>Consumer Protection Division<br>Antitrust and Franchise Unit<br>Michigan Department of Attorney General<br>525 W. Ottawa, P.O. Box 30213<br>Lansing, MI 48909<br>(517) 373-7117             |

| <b>STATE</b> | <b>AGENTS FOR SERVICE OF PROCESS</b>                                                                                                           | <b>REGULATORY AUTHORITIES</b>                                                                                                                                                      |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MINNESOTA    | Minnesota Commissioner of Commerce<br>85 7 <sup>th</sup> Place East, Suite 500<br>St. Paul, MN 55101-2198                                      | Minnesota Department of Commerce<br>85 7 <sup>th</sup> Place East, Suite 280<br>St. Paul, MN 55101-2198<br>(651) 539-1600                                                          |
| NEW YORK     | Secretary of State of the State of New York<br>41 State Street<br>Albany, NY 11231                                                             | Assistant Attorney General<br>Bureau of Investor Protection and Securities<br>New York State Department of Law<br>120 Broadway, 23rd Floor<br>New York, NY 10271<br>(212) 416-8211 |
| NORTH DAKOTA | North Dakota Securities Commissioner<br>Fifth Floor<br>600 East Boulevard<br>Bismarck, ND 58505                                                | Franchise Examiner<br>Office of Securities Commissioner<br>600 East Boulevard, 5th Floor<br>Bismarck, ND 58505<br>(701) 328-4712                                                   |
| RHODE ISLAND | Director of Rhode Island Department of Business Regulation<br>Division of Securities<br>233 Richmond Street, Suite 232<br>Providence, RI 02903 | Associate Director and Superintendent of Securities<br>Division of Securities<br>Bldg 69, 1 <sup>st</sup> Floor, 1511 Pontiac Ave.<br>Cranston, RI 02920<br>(401) 462-9527         |
| SOUTH DAKOTA | Division of Securities<br>South Dakota Department of Revenue and Regulation<br>445 E. Capitol Avenue<br>Pierre, SD 57501                       | Franchise Administrator<br>Division of Securities<br>445 E. Capitol Avenue<br>Pierre, SD 57501<br>(605) 773-4013                                                                   |
| VIRGINIA     | Clerk of the State Corporation Commission<br>1300 E. Main Street<br>Richmond, VA 23219<br>(804) 371-9733                                       | Chief Examiner/Investigator<br>State Corporation Commission<br>Division of Securities and Retail Franchising<br>1300 E. Main Street<br>Richmond, VA 23219<br>(804) 371-9051        |
| WASHINGTON   | Director of Department of Financial Institutions<br>Securities Division<br>150 Israel Road S.W.<br>Tumwater, WA 98501                          | Administrator<br>Dept. of Financial Institutions<br>Securities Division<br>P.O. Box 9033<br>Olympia, Washington 98501<br>(360) 902-8760                                            |

| <b>STATE</b> | <b>AGENTS FOR SERVICE OF PROCESS</b>                                                                                   | <b>REGULATORY AUTHORITIES</b>                                                                                                                                                                                 |
|--------------|------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| WISCONSIN    | <p>Wisconsin Commissioner of Securities<br/> 345 W. Washington Avenue, 4<sup>th</sup> Floor<br/> Madison, WI 53703</p> | <p>Franchise Administrator<br/> Securities and Franchise Registration<br/> Wisconsin Securities Commission<br/> 345 W. Washington Avenue, 4<sup>th</sup> Floor<br/> Madison, WI 53703<br/> (608) 266-3432</p> |

# **Exhibit**

## **E**

# STATE ADDENDA

**CALIFORNIA APPENDIX TO  
PAINTED DOUGH FRANCHISE AGREEMENT AND  
PAINTED DOUGH FRANCHISE DISCLOSURE DOCUMENT**

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 14 DAYS PRIOR TO EXECUTION OF AGREEMENTS.

**The registration of this franchise offering by the California Department of Financial Protection and Innovation does not constitute approval, recommendation, or endorsement by the commissioner.**

Item 2: None of the persons identified in Item 2 of the franchise disclosure document ("FDD") 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 such persons from membership in such association or exchange.

Item 6: The current maximum legal interest rate in California is 10%.

Item 17: In connection with Item 17 of the franchise disclosure document, the following paragraphs are included pursuant to California law:

1. The franchise agreement contains a liquidated damage clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

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

3. 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.).

4. The franchise agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.

5. The franchise requires a franchisee to execute a general release of claims upon renewal or transfer of the agreement. California Corporations Code 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 voids a waiver of your

rights under the Franchise Relations Act (Business and Professions Code 20000 through 20043).

6. California Corporations Code Section 31125 requires the franchisor to give the franchisee a disclosure document approved by the Department of Financial Protection and Innovation prior to a solicitation of a proposed material modification of an existing franchise.

7. No disclaimer, questionnaire, clause, or statement signed by a franchisee in connection with the commencement of the franchise relationship shall be construed or interpreted as waiving any claim of fraud in the inducement, whether common law or statutory, or as disclaiming reliance on or the right to rely upon any statement made or information provided by any franchisor, broker or other person acting on behalf of the franchisor that was a material inducement to a franchisee's investment. Any statements or representations signed by a franchisee purporting to understand any fact or its legal effect shall be deemed made only based upon the franchisee's understanding of the law and facts as of the time of the franchisee's investment decision. This provision supersedes any other or inconsistent term of any document executed in connection with the franchise.

8. Re: Website: [www.painteddough.com](http://www.painteddough.com)

OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION, ANY COMPLAINTS CONCERNING THE CONTENT OF THESE WEBSITES MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION at [www.dfpi.ca.gov](http://www.dfpi.ca.gov).

PAINTED DOUGH FRANCHISE, LLC

# **Exhibit**

# **F**

**PAINTED DOUGH FRANCHISE LLC**

**FINANCIAL STATEMENT  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR YEAR ENDED DECEMBER 31, 2023**

**JANUARY 19, 2024**



PAINTED DOUGH FRANCHISE LLC

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**Xel Advisors, Inc.**  
337 N. Vineyard Ave, Suite 230  
Ontario, CA 91764  
Tel: +1 909 750 0462  
[www.xelcpa.com](http://www.xelcpa.com)

## **Independent Auditor's Report**

To the Member of Painted Dough Franchise, LLC:

### **Opinion**

We have audited the balance sheet of Painted Dough Franchise, LLC (the "Company") as of December 31, 2023, and the related notes to the financial statement (the "financial statement").

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2023, in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statement**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statement**

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

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

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

*Xel Advisors, Inc.*

**Xel Advisors, Inc.**  
Ontario, California  
January 19, 2024

PAINTED DOUGH FRANCHISE LLC  
BALANCE SHEET  
AS OF DECEMBER 31, 2023

|                                     |                         |
|-------------------------------------|-------------------------|
| <b>Assets</b>                       |                         |
| Cash and cash equivalents (Note 4)  | <u>\$ 75,000</u>        |
| <b>Total Assets</b>                 | <b><u>\$ 75,000</u></b> |
| <b>Liabilities and Equity</b>       |                         |
| Liabilities                         |                         |
| Liabilities                         | <u>\$ -</u>             |
| Total Liabilities                   | <u>\$ -</u>             |
| Member's Equity                     |                         |
| Member's Equity (Note 5)            | <u>\$ 75,000</u>        |
| Total Member's Equity               | <u>\$ 75,000</u>        |
| <b>Total Liabilities and Equity</b> | <b><u>\$ 75,000</u></b> |

See accompanying notes and independent accountants' audit report.

PAINTED DOUGH FRANCHISE LLC  
NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2023

**1) ORGANIZATION AND DESCRIPTION OF BUSINESS**

Painted Dough Franchise LLC (the “Company”) was officially established on April 7, 2023, in the state of California. The primary focus of the Company involves franchising Painted Dough, a brand specializing in donuts, coffee, breakfast, and tea, with a particular emphasis on fast-casual dining. The Company’s operations are centered on establishing and managing dining establishments under the Painted Dough franchise across various locations in California. The Company has not entered into any new franchise agreements or had any franchise operating activities through December 31, 2023, as the Company is in the process of filing its first Franchise Disclosure Document (“FDD”) with the state of California.

**a. *Basis of Financial Presentation***

The accompanying financial statement and accompany notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

**b. *Use of Estimates***

The preparation of the financial statement in conformity with U.S. GAAP requires management to make estimates and assumptions for the reporting period as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies is prepared to assist in understanding the Company’s financial statement. The financial statement and related notes are representations of the Company’s management. Management is responsible for the integrity and objectivity of the statement and notes.

**a. *Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on hand in the Company’s primary bank account. Cash is stated at cost, which approximates fair market value.

**b. *Revenue Recognition***

The Company adopted Financial Accounting Standards Board ASC 606, Revenue from Contracts with Customer. This guidance outlines a single comprehensive model for accounting for revenue from contracts with customers. Company's primary sources of revenue include opening assistance fees, initial and renewal franchise fees, royalties, and advertising fees from franchisees. The determination of such fees is contingent upon the terms outlined in the individual franchise agreements.

Opening assistance fees are remitted to the Company as part of an agreement to establish and operate a franchise location, with the specific fee amount determined by the franchise agreement. An initial franchise fee is charged by the Company, covering operational materials, a new store opening plan, and functional training. These fees are paid for each franchise store upon the execution of the corresponding franchise agreement. Recognition of franchise fees as revenue occurs when all significant services or conditions have been substantially fulfilled over the life of the franchise agreement. Renewal franchise fees are assessed and acknowledged at the conclusion of the initial franchise term and when the franchisee decides to renew the franchise agreement for an additional term. Recognition of revenue takes place when the Company has substantially fulfilled all crucial services or conditions of the franchise agreement renewal over the life of the renewed franchise agreement. Royalties and advertising fees from franchisees are calculated as a percentage of gross revenue, excluding sales tax, and are recognized concurrently with the corresponding franchise store revenue. Following the sale of a franchise, the Company's responsibilities to franchisees encompass advertising commitments, operational assistance, and continued support and training.

As of the audit report date, no opening assistance fees, franchise fees, or royalties have been collected or recognized by the Company, as it has not commenced franchise operations as of December 31, 2023.

**c. *Leases***

The Company has adopted Financial Accounting Standards Board ASC 842, Leases. In accordance with the transition guidance provided by the new standard, the Company also implemented the package of practical expedients, which allows it to carry forward the historical lease classification (if applicable).

Under ASC 842, a right-of-use (ROU) model is established, mandating that lessees record both an ROU asset and a lease liability on the balance sheet for all lease agreements extending beyond 12 months. This standard categorizes leases as either finance or operating, a classification that influences the pattern of expense recognition within the income statement. For leases with a duration of less than 12 months, there is no requirement to record an ROU asset or lease liability; instead, lease payments are

recognized as expenses on a straight-line basis over the term of the lease. When assessing lease terms that include renewal options, the Company incorporates only those options it is likely to exercise and has the unilateral right to execute. These options are considered in the calculation of the lease assets and liabilities.

As of December 31, 2023, the adoption of ASC 842 did not lead to the recording of any ROU assets, lease incentives, or operating lease liabilities.

d. ***Income Taxes***

The Company operates as a limited liability company, treated as an S Corporation for both federal and state income tax purposes. All income tax obligations and/or advantages of the Company are passed through to its sole member. As a result, there are no federal income taxes applicable. However, the Company is subject to California's minimum franchise tax of \$800 per year, in addition to the annual tax. Furthermore, California imposes an additional fee on LLCs if their gross receipts exceed \$250,000 from all sources derived from or attributable to the state.

**3) FRANCHISE OPERATIONS**

As of December 31, 2023, the Company is in the process of completing its franchise application with the state of California and has not initiated any franchise operations. The franchise application is a pivotal step in the Company's strategic initiative to launch and expand its operations through franchising. The successful approval of the franchise application is crucial for the Company to establish and operate franchise locations within the state of California.

To expedite and ensure the success of the franchise application, management has undertaken the following key actions:

- a. Management has diligently prepared a comprehensive franchise application, adhering to all regulatory requirements and guidelines set forth by the state of California.
- b. Management has retained the services of legal and compliance professionals, that specialize in California franchise law and applications, to oversee the entire franchise application process, ensuring strict adherence to all legal requirements and industry standards.
- c. In anticipation of a successful franchise application, management is strategically planning for the establishment and operation of franchise locations.

**4) CONCENTRATION OF CREDIT RISK**

The Company maintains its cash in bank deposit accounts which, as of December 31, 2023, does not exceed federally insured limits. The Company has not experienced any losses in such accounts, nor does the Company believe it is exposed to any significant credit risk on cash deposits.

## **5) MEMBER'S EQUITY**

The capital structure of the Company consists of one class of membership interest (the "Interests"). The Member owns all of the Interests issued and outstanding and is the sole member of the Company and contributed \$75,000 in cash as of December 31, 2023, to use in its operations and to satisfy minimum net worth requirements.

## **6) SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 19, 2024, the day the financial statement was available to be issued and has not become aware of any subsequent events that would materially impact the financial statement or require additional disclosures.

### **State Effective Dates**

The following states require that the Franchise Disclosure Document be registered or filed with the state or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered, or exempt from registration, as of the Effective Date stated below:

| <b>State</b> | <b>Effective Date</b> |
|--------------|-----------------------|
| California   | _____, 2024           |

Other states may require registration filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

# **Exhibit**

# **G**

## RECEIPT

This Disclosure Document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

The franchisor is Painted Dough Franchise, LLC located at 5702 Riverside Drive, Chino, CA 91710, Telephone: (626) 231-1075.

If Painted Dough Franchise, LLC offers you a franchise, Painted Dough Franchise, LLC must provide this Disclosure Document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale. New York and Rhode Island require that Painted Dough Franchise, LLC provide this Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Iowa requires that Painted Dough Franchise, LLC provide this Disclosure Document at the earlier of the first personal meeting or 14 calendar-days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan requires that Painted Dough Franchise, LLC provide this Disclosure Document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Painted Dough Franchise, LLC do not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and appropriate state agency listed in Exhibit D.

The franchise seller for this offering are Danny Truong, 5702 Riverside Drive, Chino, CA 91710, Telephone: (626) 231-1075, and Ozzie Garcia at 8816 Foothill Blvd., Unit 103-151, Rancho Cucamonga, CA 91730; (909) 730-3242. Any additional individual franchise sellers involved in offering the franchise are:

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The registered agents authorized to receive service of process are listed in Exhibit D.

Issuance Date: January 19, 2024

I received a disclosure document dated January 19, 2024 that included the following Exhibits:

- A. Franchise Agreement with Exhibit
- B. Area Development Agreement
- C. Confidentiality Agreement
- D. State Agents and State Administrators
- E. State Addenda
- F. Financial Statements
- G. Receipts

**Date Franchise Disclosure Document Received:** \_\_\_\_\_

Signed: \_\_\_\_\_

Print Name: \_\_\_\_\_

**YOUR COPY**

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**Date Franchise Disclosure Document Received:** \_\_\_\_\_

Signed: \_\_\_\_\_

Print Name: \_\_\_\_\_

**FRANCHISOR'S COPY**