FRANCHISE DISCLOSURE DOCUMENT

Pepe's Incorporated, an Illinois Corporation
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Pepe's Incorporated, an Illinois Corporation, is the franchisor of a chain of Pepe's Mexican Restaurant Franchises. These franchises operate with the Pepe's system and serve a full menu of Mexican food items for dine-in or carry-out consumption in restaurants operating under the trademark of "Pepe's Mexican Restaurants".

The total investment necessary to begin operation of a "Pepe's Mexican Restaurant" franchise ranges from $207,000 to $652,000. This includes a $15,000 franchise fee paid to the franchisor for a free-standing restaurant and $10,000 for a food court location.

This disclosure 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 payments to the franchise or an affiliate in connection with the proposed franchise sale. **NOTE, HOWEVER, THAT NO GOVERNMENTAL AGENCY HAS VERIFIED THE INFORMATION CONTAINED IN THIS DOCUMENT.**

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contracts carefully. Show your contract and this disclosure document to an advisor, such as a lawyer or an accountant.

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

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

Issued: July 16, 2025

How to Use This Franchise Disclosure Document

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

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit D.
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 E 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 Pepe's Mexican Restaurant 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 Pepe's Mexican Restaurant franchisee?	Item 20 or Exhibit D list current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising Generally

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

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

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

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

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

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

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

Some States Require Registration

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

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

Special Risks to Consider About *This* Franchise

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

1. Out-of-State Dispute Resolution. The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in [State]. Out-of-State mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in [State] than in your own state.

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

TABLE OF CONTENTS

ITEM 1:

THE FRANCHISOR, PARENTS, PREDECESSORS AND AFFILIATES

To simplify the language, this disclosure document uses, "Pepe's", "we", "our" or "us" to mean Pepe's Incorporated, the franchisor. "You" or "your" means the individual who buys a Pepe's Mexican Restaurant franchise.

Franchisor, Parent, and Affiliates

We conduct our business under the name of Pepe's Incorporated. Our principal business address is 1325 West 15th Street, Chicago, Illinois 60608. We are an Illinois corporation that was incorporated on March 11, 1967. We do not conduct business under any other name.

We are a single business entity without either a parent corporation nor affiliates.

Agent for Service of Process

Our agent for service of process is Edwin A. Ptak at 1325 West 15th Street, Chicago, Illinois 60608 and the agents listed in Exhibit B attached to this disclosure document.

Prior Experience

We started offering Pepe's Mexican Restaurant franchises in 1967. We currently do not own or operate any Pepe's Mexican Restaurants. We previously operated three Pepe's Mexican Restaurants in Tinley Park, Matteson and Rockford Illinois, but we sold these restaurants to franchisees. We also own and operate a 54,000 square foot federally inspected food commissary in Chicago, Illinois, which produces food products for use in our Pepe's Restaurants and distribution to other food outlets. We do not offer or sell franchises in any other line of business. We have never offered franchises under any other name.

The Business We Offer

Your Pepe's Mexican Restaurant will offer to the general public a full menu of Mexican food items for dine-in or carry-out consumption. Most of our Franchises have a full liquor license or a beer and wine license although some of our restaurants do not serve alcohol. The market for Mexican food restaurants is very competitive competing with all other restaurant concepts as well as other Mexican Restaurants.

Applicable Regulations

There are various state, county and local laws and regulations which restaurants are required to comply with. These laws and regulations pertain to health, safety and sanitation concerns as well as building codes, which include electrical, plumbing, zoning and safety rules. Restaurants which serve liquor must also comply with local and state laws. You are encouraged to make further inquiries about these laws prior to investing.

Item 2:

BUSINESS EXPERIENCE

DIRECTORS

Name	Biography
Barbara Dovalina Justus	She has been with Pepe's since 1988. Director since 1992. President since 2022.
Mario A. Dovalina, Jr.	He has been with Pepe's since 1974. Director since 1981. Secretary/Treasurer until 2022.
Edwin A. Ptak	He has been with Pepe's since 1980. Director since 1981. Secretary/Treasurer since 2022.

OFFICERS HAVING MANAGEMENT RESPONSIBILITY FOR THE OFFERED FRANCHISE

Title	Name	Date Started with Pepe's
President	Barbara Dovalina Justus	1988
Secretary/Treasurer	Edwin A. Ptak	1980

Item 3:

LITIGATION

No litigation is required to be disclosed in this item.

Item 4:

BANKRUPTCY

No bankruptcy is required to be disclosed in this item.

Item 5:

INITIAL FEES

All franchisees pay either a $15,000.00 initial fee for a Free Standing or in-line restaurant and $10,000.00 for a Food Court location containing less than 750 square feet. These fees are payable in a lump sum upon signing the Franchise Agreement or in installments to be agreed upon by Pepe's and the franchisee. These installments are interest-free, although past due installments will bear interest at the current market rate of interest. Pepe's initial fee is considered earned upon the signing of the Agreement and it is not refundable except if Pepe's determines during its training program that the Franchisee is not qualified to operate a Pepe's franchise. In such a case, Pepe's will refund all but $1,500.00 of the Franchise Fee. This amount will be retained to cover the cost of training.

Item 6:

OTHER FEES

Type of Fee	Amount	Due Date	Remarks
Royalty Fee	4% of Net Sales	Payable within 2 weeks equal after the end of the week.	Net Sales equal gross sales less applicable sales tax.
Advertising Fee	4% of Net Sales	Payable within 2 weeks equal after the end of the week.	Net Sales equal gross sales less applicable sales tax.
Audit Fee	Cost of Audit	Immediately upon billing.	Payable if audit shows an understatement of at least 10% of Sales.

The above fees are payable to Pepe's and are non-refundable.

Item 7:

OTHER ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount	Method of Payment	When Due	To whom payment is to be made.
Initial Franchise Fee	$10,000 to $15,000	Cash	Opening	Pepe's
Travel and living expenses while training.	$2,000 to $10,000	Cash	Opening	Employees, hotel and restaurants.
Real Estate and improvements.	$3,000 to $10,000	Cash	First Week of every month.	Landlord
Equipment, furniture and fixtures (2)	$95,000 to $200,000	Cash / Installment Loan	Initial down payment and monthly installments.	Equipment vendors and Banks.
Lease hold Improvements and Decorating costs. (2)	$35,000 to $300,000	Cash / Installment Loan	Initial down payment and monthly installments.	Contractors and Banks

Signs	$3,000 to $10,000	Cash	Opening	Sign Co.
Security Deposits	$5,000 to $10,000	Cash	Opening	Landlord utilities
Business Licenses	$2,000 to $5,000	Cash	Opening	Government Authority
Insurance	$5,000 to $10,000	Cash / Installments	Opening	Insurance Co.
Opening Inventory	$10,000 to $20,000	Cash	Opening	Pepe's and other vendors.
Miscellaneous opening expenses (3)	$5,000 to $10,000	Cash	Opening	Pepe's and other vendors.
Advertising fee 3 months	$2,000	As incurred.	As incurred.	Pepe's
Addition funds 3 months	$30,000 to $40,000	As incurred.	As incurred.	Employees Suppliers Utilities
Total	$207,000 to $652,000			

1) Varies greatly due to size of building, location and area.
2) Will vary greatly due to amount of remodeling and construction required and if equipment is already installed in the building.
3) This amount includes employee wages and other opening capital for variable costs. These figures are estimates and Pepe's cannot guarantee that you will not have additional expenses starting the business. Your costs will depend on factors such as how well you follow the Pepe's System, your management skills, and experience, local economic conditions, the prevailing wage rate, competition, and the sales level reached during the initial period.
4) Pepe's relies on is 50+ years of experience in the restaurant business to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise. These figures do not include royalty and advertising fees.
5) Pepe's offers some financing on a case-to-case basis dependent on the franchisee's financial circumstances and Pepe's ability to finance at the time in question.
6) The above fees are payable to Pepe's and other vendors. Fees payable to outside vendors are paid by you directly to these vendors.
7) Most of these funds other than the Initial Fee to Pepe's are non-refundable.

ITEM 8:

RESTRICTION OF SOURCES OF PRODUCTS AND SERVICE

Required Purchases

You are required by our Franchise Agreement to purchase pre-mixed spiced beef, pork and chicken taco filler used in your Pepe's Mexican Restaurant Franchise from Pepe's or a pre-approved designated supplier.

Required and approved suppliers

Pepe's is currently the only supplier of our pre-mixed beef, pork and chicken taco filler used in your Pepe's Mexican Restaurant. Pepe's currently does not have any restrictions on any other purchases of any products used in your restaurant nor the sources where you may purchase these products. The officers and directors listed in Item 2 of this disclosure document are also shareholders with an ownership interest in Pepe's.

Approval of alternative suppliers

Pepe's may approve other suppliers of its pre-mixed spiced beef, pork and chicken taco filler used in your restaurant. You may request an additional supplier of this product by notifying our President of the name of this supplier and requesting the approval of franchisor of this company as a designated supplier. This process generally takes approximately 30 to 60 days. Pepe's does not charge a fee to you to approve an alternative supplier.

Revenue from franchisee purchases

In the fiscal year ending March 31, 2025, Pepe's revenues from the sale of products to franchisees was $3,146,000 or 48% of Pepe's total product sales of $6,622,954. The cost of sales of pre-mixed, spiced beef, pork or chicken taco filler purchased by franchisees for use in their restaurants was $800,000. This amount represents 8% of Pepe's total product sales from its commissary. The purchase of these taco fillers represents approximately 10% of your total purchases for your restaurant's inventory.

Cooperatives

We do not have any purchasing or distribution cooperatives.

Negotiated Prices

Pepe's does not negotiate purchase agreements with any suppliers.

Material Benefits

Neither Pepe's nor any of its officers derive any revenue or other consideration from any company which sells products to you.

ITEM 9:

FRANCHIEE'S OBLIGATIONS

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

OBLIGATION	SECTION IN AGREEMENT	DISCLOSURE DOCUMENT ITEM
A. Site selection and acquisition / lease.	Section 1 (c) (d) and Section 2 (a)	Items 7 & 11
B. Pre-opening purchase / lease.	Section 2 and 7 (a) (c)	Item 8
C. Site development and other pre-opening requirements.	Section 2 (a) (b) and (c)	Items 6, 7 & 11
D. Initial and ongoing training.	Section 3	Item 11
E. Opening	Section 2 (c)	Items 5 & 7
F. Fees	Section 6 (a) (b) and Section 9 (a)	Items 5, 6, 7 & 11
G. Compliance with standard policies / Operating Manual	Section 7 and Section 8	Item 11
H. Trademarks and proprietary information.	Section 8 and Section 4	Items 13 and 14
I. Restrictions on product / services offered.	Section 7 (c)	Items 8 & 16
J. Warranty and customer service requirements.	Section 7 (c)	None
K. Territorial development sales quotas.	Section 1 (d)	None

L. Ongoing product / service purchases.	Section 7 (c)	Item 8
M. Maintenance, appearance and remodeling requirements.	Section 7 (a) (b) (c)	Item 11
N. Insurance	Section 7 (k)	Item 7
O. Advertising	Section 9	Items 6 & 11
P. Indemnification	Section 5 & Section 7 (k)	Item 9
Q. Owner's participation management / staffing	Section 7 (h), (i) and (j)	Items 11 & 15
R. Records / reports	Section 10	Item 6
S. Inspections / audits	Section 11	Items 6 & 11
T. Transfer	Section 12	Item 17
U. Renewal	No renewal rights.	Item 17
V. Post-termination obligations.	Section 14	Item 17
W. Non-competition covenants.	Section 8 and Section 14 (d)	Item 17
X. Dispute resolution.	No obligation imposed.	Item 17

ITEM 10:

FINANCING

Pepe's generally does not provide financing for Franchisees. Franchisees must obtain their own financing from banks and other institutions. In some instances, Pepe's has provided short-term financing for a franchisee for a portion of the capital the franchisee needs to open their restaurant. These requests are considered on a case-by-case basis. A decision regarding whether to offer financing to a franchisee is based upon a franchisee's credit worthiness, the desirability of the project, and Pepe's ability to provide financing at the time of the request.

SUMMARY OF FINANCING OFFERED

Initial Fee	Pepe's	$7,500	$7,500	1 year	Prime plus 2%	$800	None	Personal Guarantee	Loss of Franchise	None
Opening Inventory	Pepe's	$0	$10,000	60 days	0%	$0	None	Personal Guarantee	Loss of Franchise	None
Other Financing	None									

Pepe's does not arrange financing from other sources. Promissory Notes from Franchisees have not been sold or assigned to anyone. Pepe's does not guarantee your obligations to third partner.

ITEM 11:

FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

Except as listed below, Pepe's is not required to provide you with any assistance.

Pre-Opening Assistance

1) Designate your exclusive Territory. (Franchise Agreement, Section 1)
2) Assist you in selecting a business site (Franchise Agreement, Section 1). Pepe's and you must agree on a site before we will sign a Franchise Agreement. Pepe's will assist you in site selection by analyzing the location of the site, population density, volume of car traffic, existence of customer generators such as offices, shopping and entertainment, and the number of competitors in your area. You are under no obligation to accept a site offered by Pepe's. Franchisees typically open a store within six months to one year after the site is selected and a Franchise Agreement is signed. The factors that affect when you open will depend on your ability to obtain financing, negotiate a lease, obtain building permits, receive local approval for a liquor license, order and obtain your equipment.
3) Once a site is selected Pepe's will assist you in negotiating a lease for your site. You will purchase or lease your restaurant location from independent third parties. (Franchise Agreement, Section 2)

4) After your lease has been signed, Pepe's will assist your planning of your restaurant, assist you in hiring a contractor, design the remodeling of the site, obtain local approval for a building permit, ordering equipment for restaurant, and apply to the local government authority for a liquor license. You will be responsible for paying for the cost of architects, contractors and the cost of remodeling the restaurant and purchasing the equipment. (Franchise Agreement, Section 2)
5) While your restaurant is being remodeled and equipment is being ordered and installed, we will begin training you to operate your restaurant and assist you in hiring employees to staff your restaurant. We will also train the employees who will be responsible for the actual hiring of your employees and paying their salaries during training. (Franchise Agreement, Section 3)
6) After completion of the remodeling and installation of all your equipment, Pepe's will assist you in obtaining final approval to open from local government authorities, such as the local departments of health, building, fire and plumbing. You will be responsible for all license fees, permits, or any other costs. (Franchise Agreement, Section 2)

Post-Opening Assistance

During the operation of the franchised business, Pepe's will:

1) Provide you with assistance the first two weeks after you open by providing you with a Pepe's field supervisor to assist you and your staff with the operation of your restaurant. There is no cost to you for this service.
2) Develop new products and menu items.
3) Provide periodic inspections of your restaurant by Pepe's field supervisors.
4) Provide you with periodic advertising materials and assistance. There will be no cost to you for any of these services.

Advertising Program

Pepe's employs advertising agencies and marketing consultants to formulate and produce concepts and materials for production and media placement of programs for the Pepe's System. Pepe's employees are working with our outside advertising agency to develop overall direction and strategy for the annual advertising program. Advertising, marketing and promotion programs are placed in regional and local media including without limitation print, radio, outdoor, point of sale, direct mail, and television. All advertising funds collected are spent in the areas where Pepe's Franchises are located. You are required to contribute 4% of your net sales to Pepe's Franchise Advertising Fund to be used to pay the costs of this advertising. Your Franchise Agreement provides a maximum of 4% of net sales can be required for advertising. Pepe's does not utilize a Franchise Advertising Advisory board but consults with all our Franchisees on the type and direction of our advertising. Pepe's does not pay any salaries of Pepe's employees or charge the Franchisee Advertising Fund for any of our expenses for administering the Advertising Fund. All advertising revenues collected from Franchisees are generally spent in the year collected or because of annual budget constraints within 6 months after the end of any fiscal year. We do not use advertising funds in any manner to solicit the sale of Pepe's Franchises. The Advertising Fund is administered by the Officers of Pepe's. Financial statements are prepared summarizing the amount of money collected on an annual basis. These statements are not audited. (Franchise Agreement Section 9)

During the past fiscal year, the Funds collected for Advertising were spent on the following items:

Media purchases (TV, Radio and Print)	80%
Promotional Items / Radio Gift Cards Giveaway	2%
Agency Fee	6%
Printing Expenses for mailings, posters, table tents Coupons and in-store promotions.	6%
Website Development	6%
	100%

Computer Requirements

We do not require that you buy or use a specific cash register or computer system for your restaurant. The electronic cash register computer system is generally used in the restaurant to efficiently and accurately process customer orders and compiles sales information including sales, transactions, product mix, and cash control. It may also be used to compile additional inventory, labor and payroll information used in managing the restaurant. The cost to you for a cash register and computer system for your restaurant can range from $5,000 to $25,000 depending on the sophistication of your system. You are not required to upgrade your cash register or computer system during the term of your franchise agreement. We do not have independent access to the information and data provided by your electronic cash register computer system and may only obtain information which you agree to provide to us. You must report weekly sales to us and compute your Royalty and Advertising fees based on these sales. We may require monthly or annual reports including a profit and loss statement and balance sheet and additional financial, operating and other information or forms and I the manner we reasonably request. You must keep and preserve on the restaurant premises full and complete written books and records of the restaurant's Gross Sales for at least three years in a manner and form satisfactory to us. The books and records include cash register tapes, properly identified over-ring slips, sales journals, general ledger, profit and loss statements, balance sheets, cash sheets, purchase invoices, bank statements with canceled checks and deposit advice, corporate and management company books and records, and federal and state tax returns. We are not obliged to provide assistance to you in obtaining the above items or services. (Franchise Agreement, Sections 10 and 11)

Training Program

Pepe's does not have a formalized training program, but develops a program suited to each Franchisee. At least one month prior to your restaurant opening we will start the training for you and your manager, if any, and your cooks in the preparation of our food in accordance with the Pepe's System. Our field supervisors will train your staff in all aspects of operating your restaurant including opening procedures, food preparation, plate presentation for items prepared from our menu, and closing and clean-up procedures. We will also train you on inventory procedures, food ordering and stock rotation.

You will receive hands-on training in the kitchen of our restaurant. You will also be required to take the state-certified food sanitation course to learn how to handle food in a safe and sanitary manner. Finally, we will train your servers and restaurant staff on proper service procedures. We recommend each Franchisee hire an outside accountant to prepare tax returns and develop financial statements.

The training program will be customized to your needs and level of experience and will last for one week to three weeks. The training program will be held at one of our franchised restaurants. The training instructor will be our field supervisor who has over thirty (30) years of experience with Pepe's and the restaurant business.

You must successfully complete the required training prior to opening your franchise. If you require additional training, Pepe's will provide such training without additional cost to you.

You and your staff do not receive compensation during the training program from Pepe's nor do we charge you a fee to participate in this training. The only cost to you during this training is for any travel or living expenses or any salary you pay to your employees to participate in this training.

At the opening of your restaurant, an experienced Pepe's field supervisor will assist you in your kitchen during the first week of operation. If necessary, another filed supervisor will help you with the front of your restaurant.

There are no further mandatory training requirements for you from Pepe's. Ongoing training of new staff is encouraged and periodically provided by Pepe's at no cost to you. (Franchise Agreement, Sections 3 and 7)

Subject	**Hours of Classroom Training**	**Hours of On-The-Job Training**	**Location**
Morning Opening Procedures	None	5 - 10	Pepe's Restaurant
Closing Presentation	None	5 - 10	Pepe's Restaurant
Inventory, Ordering, Stock Handling & Rotation	None	2 - 5	Pepe's Restaurant
Sanitation and Cleanliness	20	5	Illinois Restaurant Association - Chicago Pepe's Restaurant

Operating Manual

You will be provided with an opportunity to review the operating manual before you buy a franchise and sign the franchise agreement.

ITEM 12:

TERRITORY

You are granted an exclusive territory surrounding your restaurant location. Pepe's agrees it will not open another Pepe's Mexican Restaurant franchise or company unit within your exclusive territory. The exclusive territory is generally a radius of one-half (1/2) to two (2) miles depending on the population density of the area and other factors such as retail outlets in this area. In your Franchise Agreement, you will be provided with a map or written description of your exclusive territory. Pepe's reserves the right to sell food products produced in its U.S. inspected commissary or food ingredients at food outlets other than restaurants within your exclusive area. No compensation is paid to you by Franchisor for selling any food items in your territory. In addition, Pepe's may sell food products from its commissary to schools, cafeterias, offices, hospitals, factories, amusement parks or other non-franchised restaurants operating in your exclusive area. (Franchise Agreement, Section 1) You may relocate your Franchise location within your exclusive territory after receiving permission from Pepe's. The approval of the decision to relocate your location will be based on the desirability of your new location and the distance to other Pepe's Mexican Restaurant Franchises. You do not have the right to open additional locations within your exclusive territory. There are no minimum sales quotas nor other factors that will affect your rights to your exclusive territory. You may advertise your franchise to the public outside of your exclusive territory through any advertising media or channels you choose.

ITEM 13:

TRADEMARKS

We grant you the right to operate your restaurant under the name "Pepe's Mexican Restaurant". In addition, Pepe's has acquired and use additional names, trademarks, service marks and logos to identify its franchised restaurants and products. We registered the trademark "Pepe's" on the United States Patent Trademark Office principal register on March 3, 1972, and the trademark "Pepe's Mexican Restaurant" on October 2, 1984.

You must follow our rules regarding the use of these marks in your restaurant and in any advertising you place these marks. You may not use the "Pepe's" or "Pepe's Mexican Restaurant" trademarks in connection with the sale of any unauthorized products or services, or in any manner that we have not authorized in writing.

From time to time, we may adopt and/or apply to register additional Marks that we consider important to our business, and we may incorporate some, but not all into the Pepe's System.

There currently are no decisions of the United States Patent and Trademark Office, Trademark Trial and Appeal Board or the trademark administrator of this state or any court which affect your right to use the marks. There is currently no pending interference, opposition or cancellation proceeding or any material litigation involving such Marks the outcome of which is relevant to their use in the state in which your franchised business is to be located.

There currently are no agreements which significantly affect or limit your rights with respect to the Marks.

There is no obligation under the Franchise Agreement to notify us of any use by others of names or marks which are identical or confusingly or deceptively similar to any of the Marks. While there is no obligation under the Franchise Agreement to take affirmative action, we consider the

Marks to be a valuable property right and we continually work to protect the Marks against infringement by others and to protect your right to use the Marks.

To our knowledge there currently are no superior prior rights or infringing uses of the Marks which would materially affect your use of the Marks in the operation of your restaurant.

We have no obligation under the Franchise Agreement to protect you against, participate in your defense of, or to reimburse you for any damages which you are held liable for in any proceeding arising out of your use of the Marks.

We may at any time require you to limit and/or modify your use of the Marks. In this event, we are not obligated under the Franchise Agreement to reimburse you for the cost incurred due to the modification of discontinuance of use of the Marks.

ITEM 14:

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

Pepe's is the owner of a Copyright registration on its printed menu "Pepe's Wonderful Mexican Food". This Copyright is registered under registered No. VA46-237 and will have a life of 75 years dating from February 19, 1980 or 2/15/1973, the date of publication of the work. Pepe's intends to renew the copyright when required by law. We own rights to certain proprietary information including the formula for its taco filler. You acknowledge in the Franchise Agreement that all such proprietary formulations, and know-how are derived from information disclosed to franchisee, and that such information is proprietary, confidential and a trade secret of Pepe's.

There have not been any administrative or court proceeding involving this Copyright, and Pepe's is not aware of any infringing uses which could materially affect the franchisees use of this Copyright. Pepe's is not a party to any agreement limiting the use of this Copyright. There is no specific requirement that we must protect any or all rights which you have to use the Copyrighted material, but Pepe's has in the past and plans to continue to protect such Copyright vigorously. Franchisees are not required to notify Pepe's of any infringement of our copyright in your exclusive territory. Pepe's will initiate all litigation to protect our copyright and be responsible for all costs and control such litigation. Further, Pepe's will defend and pay for any litigation in which you are sued for use of our copyrighted materials.

ITEM 15:

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

We require you to provide full-time personnel and on premises supervision of the day-to-day operation of your Pepe's restaurant business. This duty is stated in Section 7(A) of your Franchise Agreement. Section 7 € of the Agreement provides the times and days you must operate your Pepe's restaurant.

ITEM 16:

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You may sell only products authorized by Pepe's from time to time and use the premises only as a Pepe's restaurant. In the dispensing and sale of such products, you may use only packaging, paper goods, ingredients and handling and preparation methods which meet the Pepe's System specifications and quality standards which we may designate from time to time. We have the right to add, delete or change authorized products that you are required to offer. There are no limits on our right to do so. (Franchise Agreement, Section 7)

The Pepe's System is a comprehensive restaurant system for the retailing of a Mexican Food menu of uniform and quality food products with Pepe's right to adopt and approve changes from time to time. You must operate your restaurant in conformity to the entire Pepe's System, including serving at the restaurant a designated menu of Mexican food and beverage products, uniformity of food specifications, preparing methods, quality and appearance, and uniformity of facilities and service. (Franchise Agreement, Section 7)

We impose no limitations on the customers to whom you may sell goods and services provided that you adopt and use the Pepe's System only at the specific restaurant developed by Pepe's at that address. There are no sales quotas and sales levels you must maintain to keep your Pepe's Mexican Restaurant.

ITEM 17:

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

This table lists important provisions of the franchise and related agreements. You should read these provisions in the agreement attached to this disclosure document.

Provision	Section of Franchise or other Agreement	Summary
a. Length of the franchise term.	Section 1 (c)	Term is 20 years.
b. Renewal or extension of the term.	None	Pepe's policy during the last 10 years has been to renew any lapsed Agreement for a new twenty (20) year term at no cost to the franchisee.
c. Required for franchisee to renew or extend.	None	You will be required to sign the existing Franchise Agreement which may contain materially different terms.
d. Termination by franchisee.	Section 13 (A)	Requires material breach by Pepe's.
e. Termination by franchisor without cause.	None	None
f. Termination by franchisor with cause.	Section 13 (B)	Pepe's can terminate only if you commit any one of several listed violations.

g. "Cause" defined-curable defaults.	Section 13 (B) (6)	Franchise fails to make timely payments or fails to follow mandatory standards.
h. "Cause" defined non-curable defaults.	Section 13 (B)	Material breaches are defined in section 13 (B) including abandoning the restaurant, failure to cure a default and unauthorized use of confidential trade secrets.
i. Franchisee's obligations on termination / non-renewal.	Section 14	Payment of amounts due to Pepe's, discontinuation of use of Pepe's Marks and you may not operate a Mexican Restaurant for a two-year period in your exclusive territory purchase.
j. Assignment of contract by franchisor.	None	None
k. "Transfer" by franchise definitions.	Section 12	Includes transfer, in whole or in part, of any interest in the Franchise.
l. Franchisor approval of transfer by franchisee.	Section 12	Pepe's has the right to approve all transfers but will not unreasonably withhold approval.
m. Conditions for franchisor approval of transfer.	Section 12	Transferee must be financially capable of purchasing Restaurant and possesses qualifications required of a new franchisee.
n. Franchisor's right of first refusal to acquire franchisee’s business.	Section 12	Pepe's has a right of first refusal to acquire your business.
o. Franchisor's option to purchase franchisee's business.	Section 14 (E)	Pepe's right to purchase restaurant upon termination of Agreement due to cause.
p. Our Death or disability of franchisee.	Section 12 (D)	Personal representative may assign your interest to a third person approved by Company.
q. Non-competition covenants during the term of the franchise.	Section 8	You may not operate a Mexican Restaurant other than a Pepe's Mexican Restaurant.
r. Non-competition covenants after the franchise terminated or expires.	Section 14 (D)	You may not operate any Mexican Restaurant for two years after termination within your exclusive territory.

s. Modification of the Agreement	Section 7	No modifications.
t. Integration/merger clause.	Section 15	Only the terms of the franchise agreement are binding (subject to state law) except for those included in the disclosure document. No other promises have been made.
u. Dispute resolution by arbitration or mediation.	None	N/A
v. Choice of forum	Section 15 (G)	Franchisee consents in the Agreement that Pepe's may file a legal action in any State or Federal Court, subject to any State Law limitations existing in the state in which your restaurant is located.
w. Choice of Law	Section 15 (G)	Governing law is the State Law in shich your restaurant is located, subject to State Law.

ITEM 18:

PUBLIC FIGURES

Pepe's does not use any public figure to promote our franchise.

ITEM 19:

FINANCIAL PERFORMANCE REPRESENTATIONS

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

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations with orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting [Edwin A. Ptak, 1325 W 15th Street, Chicago, IL 60608, 312-733-2500], the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20:

OUTLETS AND FRANCHISEE INFORMATION

System Wide Outlet Summary for Years 2022 to 2025

Outlet Type	Year	Outlets at Start of Year	Outlets at End of Year	Net Change
Franchised	2025	32	28	4
	2024	35	32	3
	2023	37	35	2
Company Owned	2025	0	0	0
	2024	0	0	0
	2023	0	0	0
Total Outlets	2025	32	29	3
	2024	35	32	3
	2023	37	35	2

Transfers of Outlets from Franchisees to New Owners (other than the Franchisor) for years 2022 to 2025

State	Year	Number of Transfers
Illinois	2025	1
	2024	2
	2023	0
Indiana	2025	1
	2024	0
	2023	0

Status of Franchised Outlets for Years 2022 to 2025

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Re-acquired by Franchisor	Ceased Operations Other Reasons	Outlets at End of Year
Illinois	2025	24	0	0	0	0	4	21
	2024	27	0	0	0	0	2	25
	2023	28	0	0	0	0	1	27
Indiana	2025	7	0	0	0	0	0	7
	2024	8	0	0	0	0	1	7
	2023	8	0	0	0	0	0	8
Totals	2025	32	0	0	0	0	3	28
	2024	35	0	0	0	0	3	32
	2023	37	0	0	0	0	2	35

Status of Company-Owned Outlets

This table has been deleted since Pepe's Incorporated has not owned any company units since 2004.

Projected Openings as of June 1, 2025

State	Franchise Agreements Signed but Outlet not Opened	Projected New Franchised Outlet in the Next Fiscal Year	Projected New Company-Owned Outlet in the Next Fiscal Year
Illinois	0	0	0
Indiana	0	0	0
Totals	0	0	0

The names of all franchisees who had a Pepe's Franchise terminated, cancelled, not renewed or otherwise voluntarily or involuntarily ceased to do business during the past year are listed below. During the last fiscal year four Pepe's Franchisees voluntarily ceased to conduct business at their Pepe's Restaurant as follows:

754 North Lake Street, Aurora, IL	Susana Munoz	(630) 299-3582
3233 West 63rd Street Chicago, IL	Francisco Garcia	(773) 737-1628
760 North Green Bay Rd. Waukegan, IL	Alex Castrejon	(874) 244-7887
9945 West 55th Street. Countryside, IL	Miguel Garcia	(708) 639-4182

No current prior franchisee has signed a confidentiality clause with Pepe's. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system. Pepe's does not have a franchisee association nor is there an independent Franchisee organization. See Exhibit D for a complete list of current Franchisees.

ITEM 21:

FINANCIAL STATEMENTS

Attached as Exhibit E are the Balance Sheets of Pepe's Incorporated for March 31, 2023, 2024 and 2025 and the related statements of income, shareholders, equity and cash flows for each of the three years in the period ended March 31, 2023, 2024 and 2025.

ITEM 22:

The following agreements and other agreements and other required exhibits are attached to this disclosure in the pages immediately following:

A. Pepe's Franchise Agreement. See Exhibit C

EXHIBIT A

STATE ADMINISTRATORS

ILLINOIS

Lisa Madigan
Attorney General State of Illinois

500 South Second Street
Springfield, IL 62706
Effective: July 16, 2025

INDIANA

Indiana Securities Commissioner
302 West Washington Street
Room E-111
Indianapolis, IN 46204
Effective: July 16, 2025

EXHIBIT B

LIST OF AGENTS FOR SERVICE OF PROCESS

ILLINOIS

Edwin A. Ptak
Pepe's Incorporated
1325 West 15th Street
Chicago, IL 60608

Illinois Attorney General
Franchise Division
500 South Second Street
Springfield, IL 62706

INDIANA

Indiana Secretary of State
201 State House
200 West Washington Street
Indianapolis, IN 46204

PEPE'S INCORPORATED
FRANCHISE AGREEMENT

____
FRANCHISEE

____
DATE OF AGREEMENT

____
FRANCHISE LOCATION

PEPE'S FRANCHISE AGREEMENT
TABLE OF CONTENTS

PEPE'S INCORPORATED

FRANCHISE AGREEMENT

THIS AGREEMENT is made and entered into this _______ day of _______ 20___, by and between PEPE'S INCORPORATED, an Illinois Corporation, with its principal office at 1325 West 15th Street, Chicago, Illinois 60608 ("COMPANY") and _____________ whose principal address is ______________ ("FRANCHISEE").

1. PREAMBLES AND GRANT OF FRANCHISE

A. PREAMBLES. Company owns proprietary know-how relating to and has designed and developed certain restaurants featuring both sit-down and carry-out facilities and specializing in the sale of Mexican and Mexican style foods. Such restaurant, known as "PEPE'S MEXICAN" restaurants, utilize distinctive recipes, ingredients, and methods of preparing foods, and are operated with uniform formats, designs, color schemes, methods, systems, specifications and procedures, all of which may be improved, further developed or otherwise modified by COMPANY from time to time. COMPANY owns all rights, to interests in and goodwill of, and uses, promotes, and licenses the proprietary trade and service mark "PEPE'S" and the logos reproduced on the cover of this Agreement (the "Marks"). COMPANY grants to persons who meet its qualifications and are willing to undertake the investment and effort to establish and operate a PEPE'S MEXICAN RESTAURANT (hereinafter referred to as a "PEPE'S" restaurant), franchises to operate a PEPE'S restaurant offering the food products and beverages authorized and approved by COMPANY and utilizing PEPE'S format, design, color scheme, recipes, ingredients, methods, procedures, specifications, standards, and the Marks.

B. ACKNOWLEDGEMENTS. FRANCHISEE acknowledges that he has read this Agreement and COMPANY'S Uniform Franchise Offering Circular and that he understands and accepts the terms, conditions and covenants contained in this Agreement as being reasonably necessary to maintain COMPANY'S high standards of quality and service and the uniformity of those standards at all PEPE'S restaurants and thereby to protect and preserve the goodwill of the Marks. FRANCHISEE acknowledges that he has conducted an independent investigation of the business venture contemplated by this Agreement recognizes that it involves business risks and that the success of the venture is largely dependent upon the business abilities of FRANCHISEE. FRANCHISEE acknowledges that he has no knowledge of any representations about the franchise, or about COMPANY or its franchising program or policies, by COMPANY or by its officers, directors, shareholders, employees or agents that are contrary to the terms herein. FRANCHISEE further represents to COMPANY, as an inducement to this entry into this Agreement, that FRANCHISEE has made no misrepresentations in obtaining the Franchise.

C. <u>GRANT OF FRANCHISE.</u> FRANCHISEE has applied for a franchise to own and operate a PEPE'S restaurant at ___________________ (the "Premises") and such application has been approved by COMPANY in reliance upon all of the representations made therein. Subject to the provisions of this agreement, COMPANY hereby grants to FRANCHISEE a non-exclusive FRANCHISE (the "Franchise") to operate a PEPE'S restaurant (the "RESTAURANT") and (only at) the Premises, and to use the Marks in the operation thereof, for a term of twenty (20) years commencing on the date of this Agreement. Termination or expiration of this Agreement shall constitute a termination or expiration of the Franchise.

D. <u>EXCLUSIVE TERRITORY / RIGHTS RESERVED TO COMPANY.</u> Provided that FRANCHISEE is in substantial compliance with this Agreement, COMPANY will not operate or grant a franchise for the operation of another PEPE'S restaurant within the geographical area set forth in Exhibit A attached hereto (the "Exclusive Territory"). COMPANY retains the right, in its sole discretion, and without granting any rights to FRANCHISEE, to: (1) sell food products or ingredients under the Marks at retail food stores, festivals or fairs and through other dissimilar channels of distribution to customers within the Exclusive Territory; and (2) subject to the territorial protection granted to FRANCHISEE by this Agreement (and any Exhibits hereto) grant other franchises for PEPE'S restaurants at such location as COMPANY, in its sole discretion, deems appropriate.

2. DEVELOPMENT AND OPENING OF RESTAURANT

A. LEASE OF RESTAURANT PREMISES. COMPANY shall have the right to approve the terms of FRANCHISEE'S Lease for the Premises and FRANCHISEE agrees to deliver a copy thereof to COMPANY for its approval prior to its execution by FRANCHISEE. The lease for the Premises shall contain substantially the following provisions:

1) "Anything contained in this Lease to the contrary notwithstanding, Lessor agrees that without its consent, this Lease and the right, title and interest of the Lessee thereunder, may be assigned by the Lessee to Pepe's Incorporated an Illinois Corporation or its designee, provided that Pepe's Incorporated, shall execute such documents evidencing its agreement to thereafter keep and perform, or cause to be kept or performed, all of the obligations of the Lessee arising under this lease from and after the time of such assignment."

2) "Lessee hereby agrees that Lessor may, upon the written request of Pepe's, Incorporated, disclose to Pepe's, Incorporated, all reports, information or data in Lessor's possession respecting sales made in, upon or from the leased premises."

3) "Lessor shall give written notice to Pepe's, Incorporated (concurrently with the giving of such notice to Lessee) of any default by Lessee under the Lease and Pepe's Incorporated shall have, after the expiration of the period during which the Lessee may cure such default, an additional

fifteen (15) days to cure, at its sole option, any such default."

4) "Lessor hereby agrees that upon expiration or termination of the Franchise Agreement by and between Pepe's, Incorporated and Lessee. Pepe's, Incorporated may remove from the Leased Premises all signs, sign-faces, and other items identifying or relating to a Pepe's restaurant."

In the event COMPANY cures any default by FRANCHISEE under the Lease, the total amount of all costs and payments incurred by COMPANY in effecting such a cure shall be immediately due and owing by FRANCHISEE to COMPANY.

B. <u>DESIGN, LAYOUT, FURNISHING, FIXTURES, SIGNS AND EQUIPMENT</u>. COMPANY shall have the right to approve all plans and specifications for the RESTAURANT. All such plans and specifications must meet COMPANY'S requirements for design, color scheme, layout, materials, signs, equipment, fixtures, furnishings and decorating of PEPE'S restaurants, modified to the extent necessary to comply with applicable ordinances, building codes, permit requirements, lease requirements and restrictions and market considerations. At FRANCHISEE'S request and at FRANCHISEE'S sole cost, COMPANY will prepare suitable plans and specifications for the RESTAURANT. FRANCHISEE shall obtain and maintain in force all permits and licenses necessary to develop and operate the RESTAURANT.

FRANCHISEE agrees to use in the development and operation of the RESTAURANT only those brands, types or models of fixtures, furnishings, signs and equipment that COMPANY has approved as meeting its specifications and standards for quality, design, appearance and function. FRANCHISEE shall have at the RESTAURANT only cash registers which provide non-resettable grand totals and whose serial numbers are on file with COMPANY. FRANCHISEE may purchase approved brands, types or models of signs, fixtures, furnishings and equipment from any supplier.

C. <u>RESTAURANT OPENING</u>. FRANCHISEE shall not open the RESTAURANT for business until COMPANY determines that it is in suitable condition therefore. FRANCHISEE agrees to complete development of the RESTAURANT in accordance with plans and specifications approved by COMPANY and be prepared to open within one hundred eighty (180) days after the Lease has been approved by COMPANY.

3. <u>TRAINING AND GUIDANCE</u>

A. <u>TRAINING.</u> COMPANY shall furnish to FRANCHISEE a training program in the operation of a PEPE'S restaurant during such period as COMPANY designates prior to and after the opening of the RESTAURANT. The training program may be furnished in part at COMPANY'S training center, in part in a PEPE'S restaurant operated by COMPANY and in part in the RESTAURANT after its opening. FRANCHISEE and the initial manager of the RESTAURANT, if other than FRANCHISEE, shall be required to complete the training program to the satisfaction of COMPANY. FRANCHISEE and any manager of the RESTAURANT shall also be required to successfully complete any food sanitation course required by local or state authorities. FRANCHISEE shall be responsible for any travel and living expenses which he or his manager incurs in connection with training or with such food sanitation courses and any fees charted for such courses. If, during the training program, COMPANY determines, in its sole discretion, that FRANCHISEE is not qualified to operate a PEPE'S restaurant, COMPANY shall have the right to terminate this Agreement, and upon termination, shall refund the initial franchise fee and any other amounts paid by FRANCHISEE to COMPANY less ONE THOUSAND FIVE HUNDRED ($1,500.00) DOLLARS which shall be retained by COMPANY to reimburse it for expenses incurred in connection with its grant of the FRANCHISE. COMPANY may require FRANCHISEE and previously trained or experienced RESTAURANT managers to attend periodic refresh training programs at locations designated by COMPANY.

B. <u>GUIDANCE.</u> COMPANY shall advise FRANCHISEE from time to time of operating problems of the RESTAURANT disclosed by reports submitted to or inspections made by COMPANY and shall furnish to

FRANCHISEE guidance in connection with: (1) methods and operating procedures utilized by PEPE'S restaurants; (2) preparation of food products and development of new products; (3) sources of supply for equipment, services and supplies; and (4) administrative, bookkeeping, accounting, general operation and management procedures for the operation of a PEPE'S restaurant. Such guidance shall, in the discretion of COMPANY, be furnished in the form of an operation manual (the "Operating Manual"), bulletins, other written materials, telephonic consultations and/or consultations at the offices of COMPANY or at the RESTAURANT.

C. OPERATING MANUAL. COMPANY will loan to FRANCHISEE one copy of the Operating Manual. The Operating Manual shall contain mandatory and suggested specifications, standards and operating procedures prescribed from time to time by COMPANY for PEPE'S restaurants and information relative to other obligations of FRANCHISEE hereunder and the operation of a PEPE'S restaurant. The Operating Manual will be modified from time to time to reflect changes in the image, appearance, décor, layout, approved food products and operation of PEPE'S restaurant. FRANCHISEE shall keep his copy of the Operating Manual, the master copy maintained by COMPANY at its principal office shall be controlling. FRANCHISEE may not at any time copy any part of the Operating Manual.

4. MARKS

A. OWNERSHIP AND GOODWILL OF MARKS. FRANCHISEE acknowledges that COMPANY is the owner of the Marks and that FRANCHISEE'S right to use the Marks is derived solely from this Agreement and is limited to the conduct of business by FRANCHISEE pursuant to and in compliance with this Agreement and all applicable standards, specifications and operating procedures prescribed by COMPANY from time to time during the term of the FRANCHISE. Any unauthorized use of the Marks by FRANCHISEE shall constitute an infringement of the rights of COMPANY in and to the Marks. FRANCHISEE acknowledges and agrees that all usage of the Marks by FRANCHISEE any goodwill established thereby shall inure to the exclusive benefit of COMPANY and that this Agreement does not confer any goodwill or other interest in the Marks upon FRANCHISEE (other than the right to operate a PEPE'S restaurant in compliance with this Agreement). All provisions of this Agreement applicable to the Marks shall apply to any additional proprietary trade and service marks and commercial symbols hereafter authorized for use by and licensed to FRANCHISEE by COMPANY.

B. LIMITATIONS ON FRANCHISEE'S USE OF MARKS. FRANCHISEE agrees to use the Marks as the sole identification of the RESTAURANT, provided that FRANCHISEE shall identify himself as the independent owner thereof in the manner prescribed by COMPANY. FRANCHISEE shall not use any Mark as part of any corporate or trade name or with any prefix, suffix or other modifying words, terms designs or symbols (other than logos licensed to FRANCHISEE hereunder), or in any modified form nor may FRANCHISEE use any Mark in connection with the sale of any unauthorized food products or services or in any other manner not expressly authorized in writing by COMPANY. FRANCHISEE agrees to prominently display the Marks on or in connection with any advertising materials, menus and any supplies or packaging materials designated by COMPANY, and in the manner prescribed by COMPANY, to give such notices of trade and service mark registrations as COMPANY specifies and to obtain such fictitious or assumed name registrations as may be required under appliable law. FRANCHISEE agrees to execute any and all instruments and documents, render such assistance and do such acts as may, in the opinion of COMPANY'S counsel, be necessary or advisable to protect and maintain the interests of COMPANY in any litigation or Patent and Trademark Office or other proceeding or to otherwise protect and maintain the interests of COMPANY in the Marks.

C. DISCONTINUANCE OF USE OF MARKS. If it becomes advisable at any time in COMPANY'S sole discretion for FRANCHISEE to modify or discontinue use of any mark, and/or use one or more additional or substitute trade or service marks, FRANCHISEE agrees to comply therewith at his expense within a reasonable item after notice thereof by COMPANY. FRANCHISEE acknowledges that, in connection with the use of a new or modified Mark, COMPANY may require FRANCHISEE, at his own expense, to purchase and install new signs containing such Mark at the Premises any signs inconsistent therewith.

5. RELATIONSHIP OF THE PARTIES/INDEMNIFICATION

It is understood and agreed by the parties hereto that this Agreement does not create a fiduciary relationship between them, that COMPANY and FRANCHISEE shall be independent contractors and that nothing in this Agreement is intended to make either party a general or special agent, joint ventures, partner or employee of other for any purpose. FRANCHISEE shall conspicuously identify himself at the Premises and in all dealings with customers, contractors, suppliers, public officials and others as the owner of the RESTAURANT under franchise of COMPANY and shall place such other notices of independent ownership on such forms, stationery, advertising and other materials as COMPANY may require from time to time. COMPANY has not authorized or empowered FRANCHISEE to use the Marks except as provided by this Agreement and FRANCHISEE shall not employ any of the Marks in signing any contract, lease, mortgage, check, purchase agreement, negotiable instrument or other legal obligation, application for any license or permit, or in a manner that may result in liability of COMPANY nor FRANCHISEE and neither COMPANY nor FRANCHISEE shall be obligated by or have any liability under any agreements or representations made by the other that are not expressly authorized hereunder, nor shall COMPANY be obligated for any damages to any person or property directly or indirectly arising out of the operation of the RESTAURANT or the business authorized by or conducted pursuant to the Franchise, where caused by FRANCHISEE’S negligent or willful action or failure to act. COMPANY shall have no liability for any sales, use, occupation, excise, gross receipts, income, property or their taxes, whether levied upon FRANCHISEE, the RESTAURANT or its assets, or upon

COMPANY, in connection with the sale made or business conducted by FRANCHISEE. FRANCHISEE agrees to indemnify and hold COMPANY, its shareholders, directors, officers, employees, agents and assignees harmless against any liability for any claims arising out of the operation of the RESTAURANT. For purposes of this indemnification, claims shall mean and include all obligations, actual and consequential damages, taxes and costs reasonably incurred in the defense of any claim, including without limitation, reasonable accountants', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses. COMPANY shall have the right to defend any such claim in which it is named as a defendant. This indemnity shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

6. FEES

A. INITIAL FRANCHISE FEE. FRANCHISEE agrees to pay to COMPANY a nonrecurring initial franchise fee in the amount:

1) Fifteen Thousand ($15,000.00) Dollars for all Franchise locations containing more that 750 square feet.

2) Ten Thousand ($10,000.00) Dollars for locations containing less than 750 square feet.

3) These Franchise fees shall be payable to COMPANY upon the execution of the Agreement. The initial franchise fee shall be fully earned by COMPANY and nonrefundable, except as provided in Paragraph A Section 3 hereof.

B. ROYALTY AND SERVICE FEE. FRANCHISEE agrees to pay to COMPANY on a day of each week designated by COMPANY, a royalty and service fee of four (4%) percent of the net revenues of the RESTAURANT for the preceding seven-day period.

C. DEFINITION OF "NET REVENUES". As used in this Agreement, the term "net revenues" shall mean and include: (1) the actual gross receipts collected from customers for the sale of food and beverages (including beer, wine and alcoholic drinks), whether consumed on or off the Premises; (2) the total amount of any revenues deposited in any video or other electronic games, vending machines or juke boxes located on the Premises; and (3) any and all other revenues derived through the operation of the RESTAURANT by FRANCHISEE, but excluding sales, use, excise or service taxes collected from customers and paid to the appropriate taxing authority, and customer refunds and adjustments.

D. INTEREST ON LATE PAYMENTS. All royalty and service fees, amount due for purchases by FRANCHISEE from COMPANY, advertising contributions, and other amounts which FRANCHISEE owes to COMPANY shall bear interest after due date at the highest applicable legal rate for open account business credit, not to exceed two percent (2%) per month. FRANCHISEE acknowledges that this Paragraph shall not constitute COMPANY'S agreement to accept such payments after same are due or a commitment by COMPANY to extend credit to, or otherwise finance FRANCHISEE'S operation of, the RESTAURANT. Further, FRANCHISEE acknowledges that his failure to pay all amounts when due shall constitute grounds for termination of this Agreement, as provided in Paragraph B of Section 14, notwithstanding the provisions of this Paragraph.

E. APPLICATION OF PAYMENTS. Notwithstanding any designation by FRANCHISEE, COMPANY shall have sole discretion to apply any payments by FRANCHISEE to any past due indebtedness of FRANCHISEE for royalty and service fee, purchases from COMPANY, advertising contributions, interest and/or other indebtedness.

7. RESTAURANT IMAGE AND OPERATING STANDARDS

A. CONDITION AND APPREARANCE OF THE RESTAURANT. FRANCHISEE agrees: (1) that neither the RESTAURANT nor the Premises will be used for any purpose other than the operation of a PEPE'S restaurant in compliance with this Agreement; (2) to maintain the condition and appearance of the RESTAURANT and the Premises in accordance with the standards of COMPANY and consistent with the image of a PEPE'S restaurant as a modern, clean sanitary, attractive and efficiently operated restaurant offering high quality food products and beverages and courteous and help service; (3) to effect such maintenance of the RESTAURANT and the Premises as is reasonably required by COMPANY from time to time and to maintain such condition, appearance and efficient operation, including without limitation: (i) continuous and thorough cleaning and sanitation fo the interior and exterior of the Premises; (ii) interior repair of the Premises; (iii) replacement of worn out or obsolete leasehold improvements, fixtures, equipment and signs; and (iv) periodic painting and decorating; and (4) to place or display at the premises of the RESTAURANT (interior and exterior) only such signs, emblems, lettering, logos and display and advertising materials that are from time to time approved in writing by COMPANY.

In the event FRANCHISEE does not maintain the condition and appearance of the RESTAURANT as herein required, COMPANY may, upon not less than three (3) days' written notice to FRANCHISEE: (1) arrange for the necessary cleaning or sanitation, repair, painting or decorating; or (2) replace the necessary leasehold improvements, fixtures, equipment or signs. FRANCHISEE shall pay the entire cost thereof to COMPANY immediately upon completion of the work or upon receipt by FRANCHISEE of the leasehold improvements, fixtures, equipment or signs.

B. <u>ALTERATION OR ADDITIONS TO THE RESTAURANT.</u> FRANCHISEE shall not make any material replacement of or alterations to the Premises, leasehold improvements, layout, fixtures, signs, equipment or appearance of the RESTAURANT as originally developed without prior written approval of COMPANY. FRANCHISEE shall not install or have installed any juke boxes, vending machines, or video games without prior written approval of COMPANY.

C. <u>APPROVED BRANDS AND SUPPLIERS.</u> The reputation and goodwill of PEPE'S restaurants is based upon, and can be maintained only by, the sale of distinctive, high quality food products and beverages and the presentation and packaging of such products in an attractive manner. FRANCHISEE therefore agrees that the RESTAURANT will: (1) purchase COMPANY'S premixed, spiced meat filling (prepared according to COMPANY'S secret recipe and formula) only from COMPANY or a third party licensed by COMPANY to prepare and sell such product; (2) conform to COMPANY'S specifications and quality standards, and purchase from suppliers approved by COMPANY, all ingredients, flavorings, and garnishments used in the preparation of food products and beverages; and (3) use only such menus, containers, cartons, bags, napkins and other paper goods and packaging supplies as comply with COMPANY'S specifications and quality standards.

If FRANCHISEE proposes to use any food product or beverage or utilize any ingredient or supply of a brand which has not previously been approved by COMPANY as meeting its specifications and quality standards, FRANCHISEE shall first notify COMPANY and submit to COMPANY such information, specifications, and samples of such brand as COMPANY requests. COMPANY shall within a reasonable time determine whether such food products or beverage, or supply meets its specifications and quality standards and shall notify FRANCHISEE whether the RESTAURANT is authorized to utilize or sell such items.

COMPANY may approve a single supplier for any brand and may approve a supplier only as to a certain brand or brands. In approving suppliers for the RESTAURANT, COMPANY may also take into consideration such factors as price of products or supplies and reliability of the supplier. COMPANY may concentrate purchases with one or more suppliers to obtain the lowest prices and/or services for any group of PEPE'S restaurants franchised or operated by COMPANY. Approval of a supplier may be conditioned on requirements relating to the frequency of delivery, standards or service, including prompt attention to complaints, and concentration of purchases, as set forth above, and may be temporary, pending a further evaluation of such supplier by COMPANY.

FRANCHISEE agrees that he will not, without prior written approval by COMPANY, offer any products or any services that are not authorized by COMPANY for PEPE'S restaurants. If FRANCHISEE desires to add or delete items from the RESTAURANT'S menu, he must first obtain the prior written approval of COMPANY. COMPANY requires the approval of new items to assure itself that such items are of the type and quality approved for PEPE'S restaurants and are consistent with the image and format of PEPE'S restaurants.

D. SPECIFICATIONS, STANDARDS AND PROCEDURES. FRANCHISEE acknowledges that each and every detail of the appearance, layout, décor, menu and operation of the RESTAURANT is important to COMPANY and other PEPE'S restaurants. COMPANY shall endeavor to maintain the high standards of quality and service by all PEPE'S restaurants operated or franchised by it. To this end, FRANCHISEE agrees to cooperate with COMPANY by maintaining such high standards in the operation of the RESTAURANT. FRANCHISEE further agrees to comply with all mandatory specifications, standards and operating procedures relating to: (1) type, quality, purity, taste, weight and dimensions, ingredients, uniformity, manner of preparation and sale of all food products and beverages sold by the RESTAURANT and all other products used in the packaging and sale thereof; (2) addition to or deletion of items from the RESTAURANT'S menu; (3) color and design of uniforms required to be worn by all employees of the RESTAURANT; (4) layout and décor; (5) safety, appearance, maintenance, cleanliness, sanitation, standards of service, and operation of the RESTAURANT; (6) submission of requests for approval of brands of food products and beverages, ingredients and supplies and suppliers; and (7) hours and days during which the RESTAURANT will be open for business. Mandatory specifications, standards and operating procedures prescribed from time to time by COMPANY in the Operating Manual, or otherwise communicated to

FRANCHISEE in writing, shall constitute provision of the Agreement as if fully set forth herein. All references herein to this Agreement shall include all such mandatory specifications, standards and operating procedures.

E. HOURS OF BUSINESS. FRANCHISEE shall keep the RESTAURANT open at least twelve (12) hours per day and not less than three hundred fifty (350) days during each year of the term of this Agreement, or for such greater or lesser number of hours or days as may from time to time as directed by COMPANY.

F. COMPLIANCE WITH LAWS AND GOOD BUSINESS PRACTICES. FRANCHISEE shall secure and maintain in force in its name all required licenses, permits and certificates relating to the operation of the RESTAURANT and shall transmit copies of all such licenses, certificates and permits to COMPANY within ten (10) days of their receipt by FRANCHISEE. FRANCHISEE shall operate the RESTAURANT in full compliance with all applicable laws, ordinances and regulations, including without limitations, all laws governing the sale of alcoholic beverages, if applicable, all government regulations relating to occupational hazards and health, worker's compensation insurance, unemployment insurance and withholding and payment of federal and state income taxes, social security taxes and sales taxes. All advertising and promotion by FRANCHISEE shall be completely factual and shall conform to the highest standards of ethical advertising. FRANCHISEE shall in all dealing with its customer's suppliers, COMPANY and the public adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. FRANCHISEE agrees to refrain from any business or advertising practice which may be injurious to the business of COMPANY and the goodwill associated with the Marks and other PEPE'S restaurants. FRANCHISEE shall notify COMPANY in writing (5) days before the commencement of any action, suit or proceeding, and of the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality, which may adversely affect the operation or financial condition of FRANCHISEE or the RESTAURANT or of any notice of violation of any law, ordinance or regulation relating to health, sanitation, or the possession or sale of alcoholic beverages at the RESTAURANT.

G. MAINTENANCE OF CREDIT STANDING. FRANCHISEE acknowledges that one of the benefits accruing to FRANCHISEE and all other franchisees of COMPANY is the economy of mass purchasing power. FRANCHISEE further acknowledges that failure to make payments in accordance with the terms of invoices or statements rendered to FRANCHISE, will result in a loss of credit standing and the loss of benefits derived therefrom for FRANCHISEE hereby agrees to promptly make all payments for food, supplies, fixtures, signs, and equipment in accordance with the terms of invoices or statements, unless an invoice or statement is the subject of a bona fide dispute. FRANCHISEE further agrees that his failure to do so shall be deemed a breach of this Agreement and shall give COMPANY the right to terminate this Agreement in accordance with the terms of Paragraph b. of Section 14 hereof.

H. MANAGEMENT OF THE RESTAURANT/CONFLICTING INTEREST. The RESTAURANT shall at all times be under the direct, on-premises supervision of FRANCHISEE or a full-time manager who has completed COMPANY'S training program or who has been trained by FRANCHISEE to the satisfaction of COMPANY. FRANCHISEE agrees that he will at all times faithfully, honestly, and diligently perform his obligations hereunder, that he will continuously exert his best efforts to promote and enhance the business of the restaurant and that he will not engage in any other business or activity that may conflict with his obligations under this Agreement.

I. HIRING AND TRAINING OF EMPLOYEES BY FRANCHISEE. FRANCHISEE shall hire all employees of the RESTAURANT, be exclusively responsible for the terms of their employment and compensation and for the proper training of such employees in the operation of the RESTAURANT.

J. INTERFERENCE WITH EMPLOYMENT RELATIONSHIP. During the term of this Agreement, FRANCHISEE shall not employ or seek to employ, any person who is employed by COMPANY or another franchisee of COMPANY or otherwise directly or indirectly induce such persons to leave their employment.

K. INSURANCE. FRANCHISEE shall at all times during the term of the FRANCHISE maintain in force at his sole expense: (1) comprehensive public and product liability insurance against claims for bodily injury, death and property damage caused by occurring in conjunction with the operation of the RESTAURANT or otherwise in conjunction with the conduct of business by FRANCHISEE pursuant to the Franchise containing minimum liability protection of Five Hundred Thousand Dollars ($500,000.00) per occurrence for bodily injury and death, and One Hundred Thousand Dollars ($100,000.00) per occurrence for property damage; (2) employer's liability and worker's compensation insurance in such amounts as are prescribed by law; (3) dram ship insurance (where applicable) with minimum liability protection of Five Hundred Thousand Dollars ($500,000.00) per occurrence or such greater amount as is required by law; and (4) all risk, replacement value insurance on the contents and improvements of the Premises.

Such insurance coverage shall be maintained under one or more policies of insurance issued by insurance carriers acceptable to COMPANY. All liability insurance policies required hereunder shall name COMPANY as an additional insured and provide that COMPANY receives thirty (30) days prior written notice of termination, expiration, cancellation or modification of any policy.

Upon thirty (30) days prior notice to FRANCHISEE, COMPANY may increase the minimum protection requirement as of renewal date of any policy, and require different or additional kinds of insurance at any time, including excess liability (umbrella) insurance, to reflect inflation, identification of new risks, changes in law or standards of liability, high damage awards or other relevant changes in circumstances.

FRANCHISEE shall submit to COMPANY annually a copy of the certificate of or other evidence of the renewal or extension of each such insurance of policy. If FRANCHISEE at any time fails or refuses to maintain in effect any insurance average required by COMPANY, or to furnish satisfactory evidence thereof, COMPANY, or its option and FRANCHISEE shall promptly execute any applications or other forms or instruments required to obtain any such insurance and pay to COMPANY, on demand, any costs and premiums incurred by COMPANY.

8. KNOW-HOW.

COMPANY owns proprietary know-how comprising knowledge of the ingredients, recipes, methods of preparation of food products sold at and operating procedures of PEPE'S restaurants (the "Know-How"). COMPANY will disclose the Know-How to FRANCHISEE in the training program, the Operating Manual, and in guidance furnished to FRANCHISEE during the term of the Franchise, solely for use by FRANCHISEE in the operation of the RESTAURANT during the term of the Franchise on the condition the FRANCHISEE agrees, and FRANCHISEE does hereby agree, that he will not use the Know-How in any other business or capacity and will maintain the confidentiality of such Know-How during and after the term of the franchise. FRANCHISEE further agrees that neither any shareholder or partner nor any member of the immediate family (and if FRANCHISEE is a corporation or partnership, neither any shareholder or partner nor any member of the immediate family of shareholder or partner) will have, during the term of the Franchise, directly or indirectly, any ownership interest or any interest as a director, officer, employee, consultant, representative, agent, licensor franchisor in any other restaurant or carry-out eating facility featuring Mexican style foods, except other PEPE'S restaurants operated under franchise agreements with COMPANY.

9. ADVERTISING AND PROMOTION

A. BY COMPANY. Recognizing the value of uniform advertising and promotion to the goodwill and public image of PEPE'S restaurants, COMPANY agrees to maintain and administer an advertising fund (the "Fund") for such advertising and advertising programs as COMPANY may deem necessary or appropriate, in its sole discretion. COMPANY shall direct all advertising and all advertising programs finance by the Fund, with sole discretion over the creative concepts, materials and endorsements used therein, and the geographic, market and media placement and allocation thereof. FRANCHISEE agrees that the Fund may be used to pay the cost of preparing approved advertising and marketing materials which, through the Fund, COMPANY shall furnish to FRANCHISEE on the same terms and conditions as such materials are furnished to other PEPE'S restaurants. All interest earned on monies contributed to the Fund will be used to pay advertising costs of the Fund before other assets of the Fund are expended.

FRANCHISEE shall contribute to the Fund an amount equal to not less than two percent (2%) not more than four percent (4%) of the net revenue of the RESTAURANT, as herein defined. Payable weekly together with the royalty and service fees due hereunder. COMPANY shall have the right at any time to increase or decrease the amount of such advertising contributions payable by FRANCHISEE, provided the FRANCHISEE'S total contributions to the Fund shall not exceed four percent (4%) of the net revenues of the RESTAURANT. FRANCHISEE understands and acknowledges that the Fund is intended to maximize general public recognition and patronage of the Marks and PEPE'S restaurants for the benefit of all PEPE'S restaurants and that COMPANY undertakes no obligation in administering the Fund to ensure that expenditures which are proportionate or equivalent to FRANCHISEE'S contributions are made for the market area of the RESTAURANT or that any PEPE'S restaurant benefits directly or prorate from the placement of advertising.

The Fund shall be accounted for separately from the other funds of COMPANY and shall not be used to defray any of COMPANY'S general operating expenses, except for such reasonable administrative costs and overhead as COMPANY may incur in activities reasonably related to the Fund and it's advertising programs (including, without limitation, conducting market research, preparing advertising and promotional materials and collecting and accounting for contributions to the Fund. A report on the operations of the Fund shall be prepared annually by an officer of the COMPANY and shall be made available to FRANCHISEE upon request. Except as expressly provided in this Section, COMPANY assumes no direct or indirect liability or obligation to FRANCHISEE with respect to the maintenance, direction or administration of the Fund.

B. BY FRANCHISEE. In addition to making the Fund contributions required by Paragraph A of this Section, FRANCHISEE agrees to list and advertise the RESTAURANT in the principal regular (white pages) and classified (yellow pages) telephone directories distributed within Franchisee's Exclusive Territory in such directory categories as are specified by COMPANY, utilizing COMPANY'S standard forms of listing and classified directory advertisements. Such classified directory advertisements shall list other PEPE'S restaurants operating within the distribution area of such classified directories and the cost of such advertisements shall be reasonably apportioned among all PEPE'S restaurants listed therein.

If a local advertising cooperative is created by a majority of PEPE'S restaurants in FRANCHISEE'S market area and is sanctioned by COMPANY, FRANCHISEE agrees to contribute to such local advertising cooperative in such amounts as are from time to time agreed by members of the advertising co-operative. Amounts paid by FRANCHISEE to such an advertising co-operative shall be credited toward FRANCHISEE'S Fund contributions, as required in Paragraph A of this Section. In no event shall FRANCHISEE'S total contributions to the Fund and to any local advertising co-operative exceed four percent (4%) of the net revenues of the RESTAURANT.

Prior to their use by FRANCHISEE, samples of all local advertising and promotional materials not prepared or previously approved by COMPANY shall be submitted to COMPANY for approval, which shall not be unreasonably withheld. If written disapproval is not received by FRANCHISEE within fifteen (15) days from the date of receipt by COMPANY of such materials, Franchise may use such advertising Franchisee shall not use any advertising or promotional materials that COMPANY has disapproved.

10. RECORDS, REPORTS AND FINANCIAL STATEMENTS. FRANCHISEE shall establish and maintain at his own expense an accounting and record keeping system conforming to the requirements prescribed by COMPANY. FRANCHISEE shall also furnish to COMPANY in the form from time to time prescribed by COMPANY: (1) by Monday of each week a full and complete statement of all receipts and disbursements from the operation of the RESTAURANT during the receding seven (7) day period; (2) on or before the sixth (6^{th}) day of each month, a complete operating statement for the RESTAURANT for the previous month; and (3) within sixty (60) days after the end of each of FRANCHISEE'S fiscal years, an annual financial statement for the RESTAURANT and a copy of FRANCHISEE'S federal and state tax returns for the RESTAURANT. FRANCHISEE shall verify to COMPANY that all such reports and statements are complete and accurate. FRANCHISEE shall maintain readily available for inspection by COMPANY, and shall furnish to COMPANY upon request, exact copies of all sales tax returns, state financial reports, and records of gross sales. FRANCHISEE shall also furnish to COMPANY such other financial data and reorts regarding the operation of the RESTAURANT as COMPANY may from time to time prescribed. FRANCHISEE shall retain all records, including all cash register tapes, for a period of at least three (3) years from the date of their preparation, or such greater period of time as may be required under the Lease for the Premises or by applicable law.

11. INSPECTION AND AUDITS

A. COMPANY'S RIGHT TO INSPECT THE RESTAURANT. To determine whether FRANCHISEE is complying with this Agreement, COMPANY shall have the right at any time during business hours, and without prior notice to FRANCHISEE, to inspect the RESTAURANT, inspect FRANCHISEE'S cash register tapes, and observe the operations of the RESTAURANT.

FRANCHISEE shall fully cooperate with representatives of COMPANY making any such inspection or observing the operations of the RESTAURANT.

B. COMPANY'S RIGHT TO AUDIT. COMPANY shall have the right at any time during business hours, and without prior notice to FRANCHISEE, to inspect and audit, or cause to be inspected and audited, the business records, cash control devices, cash register tapes, bookkeeping and returns and other records of the RESTAURANT and the books and records of any corporation of partnership which holds the Franchise. FRANCHISEE shall fully cooperate with representative of COMPANY and independent accountants hired by COMPANY to conduct any such inspection or audit shall disclose an understatement of the net revenues of the RESTAURANT, FRANCHISEE shall pay to COMPANY, within fifteen (15) days after receipt of the inspection or audit report, the royalty and service fees and advertising contributions due on the amount of such understatement, plus interest (at the rate and on the amount of such understatement, plus interest (at the rate and on the terms provided in Paragraph D of Section 6 hereof) for the date originally due until the date of payment. Further, in the event such inspection or audit is made necessary by the failure of FRANCHISEE to furnish reports, supporting records or other information, as herein required, or to furnish such reports, records or information on a timely basis, or is an understatement of net revenues for the period of any audit (which shall not be for less than four (4) weeks) is determined by any such audit or inspection to be greater than two percent (2%),FRANCHISEE shall reimburse COMPANY for the cost of such audit or inspection, including, without limitation, the charges of any independent accountants and the travel expenses, room and board and compensation of employees of COMPANY. The foregoing remedies shall be in addition to all other remedies and rights of COMPANY hereunder or under applicable law.

12. <u>ASSIGNMENT</u>

A. <u>BY COMPANY</u>. This Agreement and the Franchise is fully assignable by COMPANY and shall inure to the benefit of any assignee or other legal successor to the interest of COMPANY herein.

B. <u>FRANCHISEE MAY NOT ASSIGN WITHOUT APPROVAL OF COMPANY.</u> FRANCHISEE understands and acknowledges that the rights and duties created by this Agreement are personal to FRANCHISEE or its owner and that COMPANY has granted the FRANCHISEE or its owner and that COMPANY has granted the Franchise in reliance upon the individual or collective character, skill, aptitude, business ability and financial capacity of FRANCHISEE or its owner. Therefore, except as hereinafter provided with respect to assignment to a corporation, neither the Franchise nor the RESTAURANT (or any interest therein) nor any part or all of the ownership of FRANCHISE may be voluntarily, involuntarily, directly or indirectly assigned, sold, subdivided, sub franchised or otherwise transferred by FRANCHISEE or its owner (including without limitation, by transfer of capital stock or partnership interest, by merger or consolidation, by issuance of additional securities representing an ownership interest in FRANCHISEE, or in the event of the death of ownership interest in FRANCHISEE, by will, declaration of or transfer in trust or the laws of intestate succession) without the prior written approval of COMPANY, and any such assignment or transfer without such approval shall constitute a breach hereof and convey no rights to or interest in the Franchise or the RESTAURANT.

C. <u>CONDITIONS FOR APPROVAL OF ASSIGNMENT</u>. If FRANCHISEE and its owners are in full compliance with this Agreement, COMPANY shall not unreasonably withhold its approval of an assignment, provided that the proposed assignee or its owner is, in the opinion of COMPANY, an individual of good moral character and otherwise meets COMPANY'S then applicable standards for franchisees, and further provided that if the transfer is of the Franchise or the RESTAURANT, or of a controlling interest in FRANCHISEE, or is one of a series of transfers which in the aggregate constitute the transfer of a controlling interest in FRANCHISEE, all of the following conditions are met prior to, or concurrently with, the effective date of the assignment: (1) the assignee has sufficient business experience, aptitude and financial resources to own and operate the RESTAURANT; (2) all obligations of FRANCHISEE and its owner incurred in connection with this Agreement have been assumed by the assignee; (3) FRANCHISEE shall have paid such royalty and service fees, advertising contributions and amounts owned for purchases by FRANCHISEE from COMPANY and any other amounts to COMPNAY which are then due and unpaid; (4) the assignee shall have completed the training program required of new franchisee; (5) the lessor of the Premises to the assignee, or such assignee has secured substitute premises for the restaurant which are approved by COMPANY; (6) the assignee and its owner shall have executed and agreed to be bound by the form of standard Franchise Agreement and any ancillary agreements as are then customarily used by COMPANY in the grant of franchises for PEPE'S restaurants; (7) FRANCHISEE or the assignee shall have paid a training and assignment fee to COMPANY to defray expenses incurred by COMPANY in connection with the assignment in the amount of $5,000.00; (8) FRANCHISEE and its owner shall have executed a general release, in form satisfactory to COMPANY and its officers, directors, employees and agents; (9) COMPANY shall have approved the material terms and conditions of such assignment, including, without limitation, that the price and terms of payment are not so burdensome as to adversely affect the future operations of the RESTAURANT by such assignee; (10) FRANCHISEE and its owner shall have executed a non-competition covenant in favor of COMPANY and the assignee, agreeing that for a period of not less than three (3) years, commencing on the effective date of the assignment, he and they will not have any interest as an owner, investor, partner, director, officer, employee, consultant, representative or agent, or in any other capacity, in any other restaurant or carry-out eating facility featuring Mexican or Mexican style foods located within the Exclusive Territory; and (11) FRANCHISEE and its owner shall have entered into an agreement with COMPANY providing that all obligations of the assignee to make installment payments of the purchase price or interest thereon to FRANCHISEE or its owner shall be subordinate to the obligations of the assignee to pay royalty and service fees advertising contributions and obligations for purchases from COMPANY. If the proposed assignment is to or among owners of FRANCHISEE or to or among the immediate family members of FRANCHISEE, or an owner of FRANCHISEE, subparagraph (7) of the above requirements shall not apply and subparagraphs (9) and (11) shall not apply to transfers by gift, bequest or inheritance.

D. DEATH OR DISABILITY OF FRANCHISEE. Upon the death or permanent disability of FRANCHISEE or, if FRANCHISEE is a corporation or partnership, the owner of one-half (1/2) or more of the partnership interest, equity or voting control of FRANCHISEE, the executor, administrator, conservator or other personal representative of such person shall assign his interest in the Franchise or such interest in FRANCHISEE to a third party approved by COMPANY. Such disposition of the Franchise or such interest in FRANCHISEE (including, without limitation, transfer by bequest or inheritance) Failure to so dispose of the Franchise or such interest in FRANCHISEE within said period of time shall constitute a breach of this Agreement.

Pending assignment, COMPANY shall, if requested, appoint a manager to operate the RESTARANT for the account of FRANCHISEE. If, after the death or disability of FRANCHISEE, the restaurant is not being managed by a competent and trained manager, COMPANY is authorized to appoint a manager to maintain the operation of the RESTAURANT until an approved assigned shall be able to assume the management and operation of the RESTAURANT, but in no event for a period exceeding twelve (12) months without the approval of the personal representative of FRANCHISEE or such owner. All funds from the operation of the RESTAURANT during the period of management by a COMPANY appointed manager shall be kept in a separate fund and all expenses of the RESTAURANT, including compensation, other costs and travel and living expenses of the COMPANY appointed manager, shall be charged to such fund. As compensation for the management services provided, in addition to the royalty and service fees due hereunder, COMPANY shall receive five percent (5%) of the net revenues of the RESTAURANT during the period of management by COMPANY. Operation of the RESTAURANT during any such period shall be for and on behalf of FRANCHISEE, provided that COMPANY shall only have a duty to utilize its best efforts and shall not be liable to FRANCHISEE or its owners for any debts, losses or obligations incurred by the RESTAURANT, or to any creditor of FRANCHISEE for any merchandise materials supplies or services purchased by COMPANY appointed manager.

E. ASSIGNMENT TO A CORPORATION. The Franchise and the assets and liabilities of the RESTAURANT may be assigned to a newly organized corporation which (during the entire term of the Agreement and any renewal thereto) conducts no business other than the RESTAURANT (and other PEPE'S restaurants), which is actively managed by FRANCHISEE and in which FRANCHISEE owns and controls all issued and outstanding capital stock. The articles of incorporation, by-laws and other organizational documents of such corporation shall recite that the issuance and assignment of any interest therein is restricted by the terms of Section 12 of this Agreement and all issued and outstanding stock certificates of such corporation shall bear a legend reciting or referring to the restrictions thereof. Each shareholder of FRANCHISEE at any time during the term of the Franchise shall execute an Agreement in form furnished or approved by COMPANY undertaking to be bound jointly and severally by all provisions of this Agreement. FRANCHISEE shall furnish to COMPANY at any time came upon request, in such form as COMPANY may require, a list of all shareholders (of record and beneficially) reflecting their respective interests in FRANCHISEE.

F. COMPANY'S RIGHT OF FIRST REFUSAL. If FRANCHISEE or its owner shall at any time determine to sell an interest in the RESTAURANT or any ownership interest in FRANCHISEE, FRANCHISEE or its owner shall obtain a bona fide, executed written offer from a responsible and fully disclosed purchaser and shall submit an exact copy of such offer to COMPANY. COMPANY or its designee shall have the right, exercisable by written notice delivered to FRANCHISEE or its owner within thirty (30) days from the date of delivery of an exact copy of such offer to COMPANY, to purchase such interest in the RESTAURANT or such ownership interest in FRANCHISEE for the price and on the terms and conditions contained in such offer, provided by COMPNY'S credit shall be deemed equal to that of any proposed purchaser and COMPANY or its designee shall be entitled to customary warranties, closing documents and post-closing indemnifications, may substitute cash for any form of payment proposed in such offer and shall have not less than sixty (60) days to prepare for closing. If COMPANY or its designee does not exercise its right of first refusal, FRANCHISEE or its owner may complete the sale to such purchaser pursuant to and on the terms of such offer, subject to COMPANY'S approval of the purchaser as provided in Paragraphs B and C of this section, provided that if the sale to such purchaser is not competed with one hundred twenty (120) days after delivery of such offer to COMPANY, or there is a material change in the terms of the sale, COMPANY or there is a material change in the terms of the sale, COMPANY or its designee shall again have the right of first refusal herein provided.

G. <u>EFFECT OF CONSENT TO ASSIGNMENT</u>. COMPANY'S consent to an assignment of the Franchise of any interest in FRANCHISEE subject to the restrictions of this Section shall not constitute a waiver of any claims it may have against the assignor, nor shall it be deemed a waiver of COMPANY'S right to demand exact compliance with any of the terms or conditions of the Franchise by assignee.

13. <u>TERMINATION OF THE FRANCHISE</u>

A. <u>BY FRANCHISEE.</u> If FRANCHISEE is in substantial compliance with this Agreement and COMPANY breaches this Agreement and fails to cure such breach within thirty (30) days after written notice thereof is delivered to COMPANY, FRANCHISEE may terminate this Agreement effective ten (10) days after delivery by COMPANY, franchises may terminate this Agreement effective ten (10) days after delivery to COMPANY of notice thereof. A termination of this Agreement by FRANCHISEE for any reason other than a material breach of this Agreement by COMPANY (coupled with substantial compliance by FRANCHISE) and COMPANY'S failure to cure such breach within notice thereof, shall be deemed a termination by FRANCHISEE without cause.

B. BY COMPANY. COMPANY shall have the right to terminate this Agreement effective upon delivery of notice of termination to FRANCHISEE, if FRANCHISEE or its owner:

1) Abandons or fails to actively operate the RESTAURANT (unless the RESTAURANT has been closed for a purpose approved by COMPANY);
2) Surrenders or transfers control of the operation of the RESTAURANT (including entering into a management arrangement with any person not a party to this Agreement.
3) Has made any material misrepresentation or omission in his application for the Franchise or is convicted of or pleads no contest to a felony or other crime or offense that is likely to adversely affect the reputation of FRANCHISEE or the RESTAURANT;
4) Makes an unauthorized assignment of the Franchise or an ownership interest in FRANCHISEE of the RESTAURANT or fails to assign the Franchise or the interest in Franchise of the interest in FRANCHISEE of a deceased or disabled principal owner thereof as herein required;
5) makes any unauthorized use or disclosure of the Know-How or uses, duplicates or discloses any portion of the Operating Manual in violation of this Agreement;
6) commits and fails to promptly cure a default under any other franchise agreement with COMPANY;

7) fails or refuses to comply with any mandatory specification, standard or operating procedure prescribed by COMPANY relating to the cleanliness or sanitation of the RESTAURANT or violates any health, safety or sanitation, law, ordinance or regulation and does not correct such failure or refusal within seventy-two (72) hours after written notice thereof is delivered to FRANCHISEE; or
8) fails on two (2) or more separate occasions within any period of twelve (12) consecutive months to submit when due reports or other data, information or supporting records, to pay when due the royalty and service fees or otherwise fails to comply with this Agreement, whether or not such failures to comply are corrected after notice thereof is delivered to FRANCHISEE.

COMPANY shall have the right to terminate this Agreement without further notice to FRANCHISEE, if FRANCHISEE or its owners:

1) fails to accurately report the weekly sales of the RESTAURANT or fails to make payments of any amounts due COMPANY hereunder, and does not correct such failure within ten (10) days after written notice of such failure is delivered to FRANCHISEE; or
2) fails to comply with any other provision of this Agreement or mandatory specification, standard or operating procedures prescribed by COMPANY and does not correct such failure within thirty (30) days (or provide proof acceptable to COMPANY of its efforts to correct such failure if such failure cannot reasonably be corrected with in thirty (30) days after written notice of such failure to comply (which shall describe the action that FRANCHISEE must take to correct such failure) is delivered to FRANCHISEE.

COMPANY shall have the right to terminate this Agreement, effective upon delivery of notice of termination to FRANCHISEE, in the event FRANCHISEE’S lease for the Premises is terminated due to a default by FRANCHISEE thereunder. In the event FRANCHISEE’S lease for the Premises expires or is terminated for reasons other than default of FRANCHISEE, this Agreement shall continue full force and effect, provided that: (1) FRANCHISEE shall execute a lease for a new location approved by COMPANY within the Exclusive Territory within two (2) months of the date of expiration or termination of FRANCHISEE'S lease for the Premises; and (2) FRANCHISEE shall complete development of a PEPE'S restaurant at such new location in accordance with plans and specifications approved by COMPANY and have such restaurant open for business within six (6) months of the date of expiration or termination of FRANCHISEE'S lease for the Premises. Upon the opening of such restaurant, it shall be deemed the "RESTAURANT" and such location shall be deemed the "Premises" hereunder and all of the terms and conditions of this Agreement shall be applicable thereto.

14. <u>RIGHTS AND OBLIGATIONS OF COMPANY AND FRANCHISEE UPON TERMINATION OR EXPIRATION OF THE FRANCHISE.</u>

A. <u>PAYMENT OF AMOUNT OWED TO COMPANY</u>. FRANCHISEE agrees to pay to COMPANY within fifteen (15) days after the effective day of termination of expiration of the Franchise, or such later date that the amounts due to COMPANY are determined, such royalty and service fees, advertising contributions, amounts owed for purchases by FRANCHISEE from COMPANY, interest due COMPANY on any of the foregoing and all other amounts to COMPANY which are then unpaid.

B. <u>MARKS</u>. FRANCHISEE agrees that after the termination or expiration for the Franchise he will: (1) not directly or indirectly at any time or in any manner identify himself or any business as a current or former PEPE'S restaurant, or as franchisee, licensee or dealer of or as otherwise associated with COMPANY, or with the use any MARK, any colorable imitation therefore or other indication of a PEPE'S restaurant in any manner or for any, or utilize for any purpose any trade name, trade or service mark or other commercial symbol that suggest or indicates a connection or association with COMPANY, (2) return to COMPANY all signs, sign-faces, advertising materials, forms, invoices and other materials containing any MARK or otherwise identifying or relating to a PEPE'S restaurant and allow COMPANY, without liability, to remove all such items from the RESTAURANT; (3) take such action as may be required to cancel all fictitious or assumed name or equivalent registrations relating to his use of any MARK; (4) notify the telephone company and all listing agencies of the termination or expiration of FRANCHISEE'S right to use any telephone number and any regular, classified or other telephone directory listings associated with any MARK and to authorize transfer of same to or at the direction of COMPANY. FRANCHISEE acknowledges that as between COMPANY and FRANCHISEE, COMPANY has the sole rights to and interest in all telephone numbers and directory listing associated with any MARK and FRANCHISEE authorized COMPANY, and hereby appoints COMPANY and any officer of COMPANY as his attorney in fact, to direct the telephone company and all listing agencies to transfer same to COMPANY or at its direction, should FRANCHISEE fail or refuse to do so, and the telephone company and all listing agencies may accept such direction or this Agreement as conclusive of the exclusive rights of COMPANY in such telephone numbers and directory listings and its authority to direct their transfer; and (5) furnish to COMPANY, within thirty (30) days after the effective date of termination or expiration evidence satisfactory to COMPANY of FRANCHISEE'S compliance with the foregoing obligations.

C. KNOW-HOW FRANCHISEE agrees that upon termination or expiration of the Franchise, he will immediately cease to use the Know-How of COMPANY disclosed to FRANCHISEE pursuant to this Agreement in any business or otherwise and return to COMPANY all copies of the Operating Manual which have been loaned to him by COMPANY.

D. COVENANT NOT TO COMPETE If prior to its expiration, the Franchise is terminated by COMPANY in accordance with the provisions of the Agreement or by FRANCHISEE without cause, FRANCHISEE agrees that for a period of two (2) years, commencing on the effective date of termination, or the date on which FRANCHISEE ceases to conduct the business conducted pursuant to this Agreement, whichever is later, FRANCHISEE will not have any interest as an owner, partner, director, officer, employee, consultant, representative or agent, or in any other capacity, in any restaurant or carry-out eating facility featuring Mexican or Mexican style foods located within the Exclusive Territory.

E. COMPANY HAS RIGHT TO PURCHASE THE RESTAURANT. It this Agreement is terminated by COMPANY in accordance with its provisions or by FRANCHISEE without cause, or if this Agreement expires and is not renewed because of FRANCHISEE'S failure to comply with this Agreement during its initial term, then COMPANY shall have the option, exercisable by giving written notice there of within sixty (60) days from the date of such expiration or termination, to purchase from FRANCHISEE all the assets (including, without limitation, inventory of saleable merchandise, materials, supplies, leasehold improvements, fixtures, furnishings, equipment and signs) of the RESTAURANT and to accept an assignment of FRANCHISEE'S lease for the Premises. COMPANY shall have the unrestricted right to assign such option. The purchase price for the assets of the RESTAURANT shall be their fair market value, provided that the purchase price shall not contain any factor or increment for "goodwill" or "going concern value" and further provided that COMPANY may exclude from the assets purchased hereunder any fixtures furnishings, equipment, signs, leasehold improvements, merchandise, supplies and materials that are not approved for PEPE'S restaurants. If COMPANY and FRANCHISEE are unable to agree on the fair market value, the fair market value shall be determined by an independent appraiser selected by COMPANY and FRANCHISEE, and if they are unable to agree on an appraiser, COMPANY and FRANCHISEE shall each select one appraiser, who shall select a third appraiser, and the majority of such appraisers shall determine such value. The purchase price shall be paid in cash at the closing of the purchase, which shall take place no later than ninety (90) days after receipt by FRANCHISEE of COMPANY'S notice of exercise of this option to purchase the RESTAURANT, at which time FRANCHISEE shall deliver instruments transferring to COMPANY or its designee: (1) good and merchantable title to the assets purchased, free and clear of all liens and encumbrances (other that liens and security interests acceptable to COMPANY or its designee), with all sales and other transfer taxes paid by FRANCHISEE; and (2) all licenses, including without limitation the liquor license for the RESTAURANT, or permits which may be assigned or transferred. In the event that FRANCHISEE cannot deliver clear title to all of the purchased assets as aforesaid, or in the event there shall be other unresolved issues, the closing of the sale shall be accomplished through an escrow. Further, FRANCHISEE and COMPANY shall, prior to closing, comply with the applicable Bulk Sales provisions of the Uniform Commercial Code as enacted in the state where the RESTAURANT is located. COMPANY shall have the right to set off against and reduce the purchase price by any and all amounts owed by FRANCHISEE to COMPANY. If COMPANY exercises this option to purchase the RESTAURANT, pending the closing of such purchase as herein above provided, COMPANY shall have the right to appoint a manager to maintain the operation of the RESTAURANT, in accordance with the relevant provisions of Paragraph D of Section 12 hereof. Alternatively, COMPANY may require FRANCHISEE to close the RESTAURANT during such time period without removing any assets from there. FRANCHISEE shall maintain in full force all insurance policies required by Paragraph K, Section 7 hereof, until the date of closing.

F. CONTINUING OBLIGATIONS. All obligations of COMPANY and FRANCHISEE which expressly or by their nature survive the expiration or termination of the Agreement shall continue in full force and effect subsequent to and notwithstanding its expiration or termination and until they are satisfied in full or by their nature expire.

15. ENFORCEMENT

A. SEVERABILITY AND SUBSTITUTION OF VALID PROVISIONS. Except as expressly provided to the contrary herein, each section, paragraph, term and provision of this Agreement, and any portion thereof, shall be considered severable and if, for any reason, any, such provision of this Agreement is held to be invalid, contrary to, or in conflict with any applicable present or future law or regulation in a final, unappealable ruling issued by any court, agency or tribunal with competent jurisdiction in a proceeding to which company is a party, that ruling shall not impair the operation of, or have any other effect upon, such other portions of this Agreement as may remain otherwise intelligible, which shall continue to be given full force and effect and bind the parties hereto, although any portion held to be invalid shall be deemed not to be a part of this agreement from the date the time for appeal expires, if FRANCHISEE is a party thereto, otherwise upon FRANCHISEE'S receipt of notice of non-enforcement thereof from COMPANY. To the extent that Section 8, or any clause thereof, or Paragraph D of Section 15 is deemed unenforceable by virtue of its scope in terms of area, business activity prohibited and/or length of time, but could be enforceable by reducing any or all thereof, FRANCHISEE and COMPANY agree that same shall be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction in which enforcement is sought. If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of or refusal to renew this Agreement than is required hereunder, or the taking as some other action not required hereunder, or if under any applicable and binding law or rule of any jurisdiction, any provision of the Agreement or any specification, standard or operating procedure prescribed by COMPANY is invalid or unenforceable, the prior notice and/or other action required by such law or rule shall be substituted for the comparable provisions hereof, and COMPANY shall have the right, in its sole discretion, to modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. FRANCHISEE agrees to be bound by any promise or covenant imposing the maximum duty permitted by law which is subsumed within the terms of any provision hereof, as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions hereof, or any specification, standard or operating procedure prescribed by COMPANY, any portion or portions which a court may hold to be unreasonable and unenforceable in a final decision to which COMPANY is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court order. Such modifications to this Agreement shall be effective only in such jurisdiction, unless COMPANY elects to give them greater applicability, and shall be enforced as originally made and entered into in all other jurisdictions.

B. WAIVER OF OBLIGATIONS. COMPANY and FRANCHISEE may by written instrument unilaterally waive or reduce any obligation of or restriction upon the other under this Agreement, effective upon delivery of written notice thereof to the other such other effective date stated in the notice of waiver. Whenever this Agreement requires COMPANY prior approval or consent, FRANCHISEE shall make a timely written request therefore, and such approval shall be obtained in writing. Company makes no warranties or guaranties upon which FRANCHISEE may rely, and assumes no liability or obligation to FRANCHISEE, by granting any waiver, approval or consent to FRANCHISEE, or by reason of any neglect, delay or denial of any request, therefore. Any waiver granted by COMPANY shall be without prejudice to any other rights COMPANY may be revoked, in COMPANY'S sole discretion, at any item and for any reason, effective upon delivery to FRANCHISEE shall not be deemed to have waived or impaired any right, power or option reserved by this Agreement (including, without limitation, the right to demand exact compliance with every term condition and covenant herein, or to declare any breach thereof to be a default and to terminate the Franchise prior to the expiration of its term,) by virtue of any custom or practice of the parties at variance with the terms hereof; any failure, refusal or neglect of COMPANY of FRANCHISEE to exercise any right under this Agreement or to insist upon exact compliance by the other with its obligations hereunder, including, without limitation, any mandatory specification standard or operating procedure; any waiver, forbearance, delay, failure or omission by COMPANY to exercise any right, power or option, whether of the same, similar or different nature, with respect to other PEPE'S restaurants; or the acceptance by COMPANY of any payments due from FRANCHISEE after any breach of this Agreement. Neither COMPANY not FRANCHISEE shall be liable for loss or damage or deemed to be in breach of this Agreement if its failure to perform its obligations results from: (1) Transportation shortages, inadequate supply of equipment, fixtures, furnishings, merchandise, supplies, labor material or energy, or the voluntary foregoing for the right to acquire or use any of the foregoing in order to accommodate or comply with the orders, requests, regulations, recommendations or instructions of any federal, state or municipal government or any department or agency thereof; (2) compliance with any law, ruling, order, regulation, requirement or instruction of any federal, state or municipal government or any department or agency thereof; (3) acts of God; (4) acts or omissions of the other party; (5) fires, strikes, embargoes, war, or riot; or (6) any other similar event or cause. Any delay resulting from any of said causes shall extend performance accordingly or excuse performance, in whole or in part, as may be reasonable, except that said causes shall not excuse payments of amount owed at time of such occurrence or payment of royalties due on any sales thereafter.

C. <u>FRANCHISEE MAY NOT WITHHOLD PAYMENTS.</u> FRANCHISEE agrees that he will not, on grounds of the alleged non-performance by COMPANY of any of its obligations hereunder, withhold payment of any royalty and service fees, advertising contributions, amounts due to COMPANY for purchases by FRANCHISEE or any other amounts due COMPANY.

D. <u>SPECIFIC PERFOMANCE/INJUNCTIVE RELIEF.</u> Nothing herein contained shall bar COMPANY'S or FRANCHISEE'S right to obtain specific performance of the provisions of the Agreement and injunctive relief against threatened conduct that will cause it loss or damages, under customary equity rules, including applicable rules for obtaining retraining orders and preliminary injunctions. FRANCHISEE agrees that COMPANY may have such injunctive relief, without bond, but upon due notice, in addition to such further and other relief as may be available at equity or law, and the sole remedy of FRANCHISEE, in the event of the entry of such injunction, shall be the dissolution of such injunction, if warranted, upon hearing duly had (all injunction being expressly waived hereby.)

E. <u>RIGHTS OF PARTIES ARE CUMULATIVE.</u> The rights of COMPANY and FRANCHISEE hereunder are cumulative and no exercise or enforcement by COMPANY or FRANCHISEE of any right or remedy hereunder shall preclude the exercise or enforcement by COMPANY or FRANCHISEE of any other right or remedy hereunder or which COMPANY or FRANCHISEE is entitled by law to enforce.

F. <u>COST AND ATTORNEY'S FEES.</u> If a claim for amounts owed by FRANCHISEE to COMPANY is asserted in any legal proceeding before a court of competent jurisdiction, or if COMPANY or FRANCHISEE is required to enforce this Agreement in a judicial proceeding, the party prevailing in such proceeding shall be entitled to reimbursement of its costs and expenses, including reasonable accounting and legal fees.

G. <u>GOVERNING LAW/CONSENT TO JURISDICTION.</u> Except to the extent governed by the United States Trademark Act of 1946 (Lamham Act, 15 U.S.C. Section 1051 et seq.,) this Agreement and the Franchise shall be governed by the laws of the state in which the RESTAURANT is located. To the extent that the provisions of this Franchise Agreement provide for periods of notice less than those required by applicable law, or provide for termination, cancellation, non-renewal or the like other than in accordance with applicable law, and Franchisor shall comply with applicable law, in connection with each of these matters. FRANCHISEE agrees that COMPANY may institute any action against FRANCHISEE arising out of or relating to this Agreement in any state or federal court of general jurisdiction of such courts and waives any objection he may have to either the jurisdiction or venue of such court.

H. <u>BINDIN EFFECT.</u> This Agreement is binding upon the parties hereto and their respective executors, administrators, heirs, assigns and successors in interest, and shall not be modified except by written agreement signed by both FRANCHISEE AND COMPANY.

I. <u>CONSTRUCTION.</u> The preambles and exhibit(s) are a part of this Agreement, which constitutes the entire agreement of the parties, and there are no other oral or written understandings or agreements between COMPANY and FRANCHISEE relating to the subject matter of this Agreement. Nothing in this Agreement is intended, nor shall be deemed, to confer any rights or remedies upon any person or legal entity not a party hereto. The headings of the several sections and paragraphs hereof are for convenience only and do not define, limit or construe the contents of such sections or paragraphs. The term "FRANCHISEE" as used herein is applicable to one or more persons, a corporation or a partnership, as the case may be, and the singular usage includes the plural and the masculine and neuter usages include the other and the feminine. If two or more persons are at any time FRANCHISEE hereunder, whether or not as partners or joint venturers, their obligations and liabilities to COMPANY shall be joint and several. References to "FRANCHISEE", which are applicable to an individual or individuals shall mean, unless expressly made applicable to all shareholders and partners, principal owners of FRANCHISEE or the assignee (any person owning of record or beneficially ten percent (10%) or more of the equity or control of FRANCHISEE) if FRANCHISEE or the assignee is a corporation or partnership. References to a controlling interest in FRANCHISEE shall mean fifty percent (50%) or more of the equity or voting control of FRANCHISEE. This Agreement shall be executed in multiple copies, each of which shall be deemed an original. Nothing in this Franchise Agreement requires you to waive reliance on any representations in the disclosure document.

16. NOTICES AND PAYMENTS

All written notices and reports permitted or required to be delivered by the provisions of this Agreement or of the Operating Manual shall be by the provisions of this Agreement or of the Operating Manual shall be deemed so delivered at the time delivered by hand, one (1) business day after transmission by telegraph or comparable electronic system or three (3) business days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid and addressed to the party to be notified at its most current principal business address of which the notifying party has been notified. All payments and reports required by this Agreement shall be directed to COMPANY at the address notified to FRANCHISEE from time to time, or to such other persons and places as COMPANY may direct from time to time. Any required payment or report not actually received by the COMPANY during regular business hours on the date due (or postmarked by postal authorities at least two (2) days prior thereto shall be deemed delinquent.

17. SIGNATURES

The Agreement shall not be binding upon either party until it is executed by both the President and Secretary of COMPANY. All payments by FRANCHISEE hereunder shall be made by check payable solely to the order of PEPE'S INCORPORATED.

IN WITNESS WHEREOF the parties hereto have executed, sealed and delivered this Agreement in three counterparts on the day and year first above written.

PEPE'S INCORPORATED

By: ________________________ ________________________

Its President

Attest:________________________ ________________________

Its Secretary

Franchise Location:

EXHIBIT A

FRANCHISEE'S Exclusive Territory, defined in Paragraph D of Section 1 of the Agreement, shall include:

Two (2) radius of ________________________________, Illinois _______

OWNER’S GUARANTY AND ASSUMPTION OF FRANCHISEE’S OBLIGATIONS

In consideration of, and as an inducement to, the execution of the above Franchise Agreement (the “Agreement”) by PEPE’S, INCORPORATED (“COMPANY”), each of the undersigned hereby personally and unconditionally (1) guarantees to PEPE’S INCORPORATED and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement that

____

(“FRANCHISEE”) shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement and (2) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement. Each of the undersigned waives:

(1) acceptance and notice of acceptance by PEPE’S, INCORPORATED, of the foregoing undertaking;

(2) notice of demand for payment of any indebtedness or non-performance of any obligations hereby guaranteed;

(3) protest and notice of default to any party with respect to the indebtedness or non-performance of any obligations hereby guaranteed;

(4) any right he may have to require that an action be brought against FRANCHISEE or any other person as condition of liability; and

(5) any and all other notices and legal or equitable defenses to which he may be entitled.

Each of the undersigned consents and agrees that:

(1) his direct and immediate liability under this guaranty shall be joint and several;

(2) he shall render any payment or performance required under the Agreement upon demand if FRANCHISEE fail or refuse punctually to do so;

(3) such liability shall not be contingent or conditioned upon pursuit by COMPANY of any remedies against FRANCHISEE or any other person; and

(4) such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which PEPE'S, INCORPORATED may from time to time grant to FRANCHISEE or to any other person, including without limitation the acceptance of any partial payment shall in any way modify or amend this guaranty, which shall be continuing and irrevocable during the term of the Agreement.

IN WITNESS WHEREOF, each of the undersigned has hereunto affixed his signature on the same day and year as the Agreement was executed.

WITNESSES	GUARANTOR(S)
______________________________	______________________________
______________________________	______________________________

ADDENDUM TO THE PEPE'S INCORPORATED FRANCHISE AGREEMENT

The following addendum to the Pepe's Incorporated Franchise Agreement is entered into this _______day of ____________________, 20_______.

Illinois law governs the Franchise Agreement.

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

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

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

In witness whereof the parties here to have executed this Agreement on the day and year first above written.

Pepe's Incorporated	Franchise
by_____________________________	by_____________________________

Franchise Location ____

EXHIBIT D

LIST OF OUTLETS AS OF June 1, 2025.

ILLINOIS

ADDRESS	CITY	ZIP	STATE	CONTACT
8227 South Exchange	Chicago	60617	IL	Fidel Haro
6230 South Western	Chicago	60636	IL	Francisco Garcia
11227 South State	Chicago	60628	IL	Fidel Haro
11652 South Western	Chicago	60643	IL	Margaret Reyes & Art Jr.
7026 West Archer	Chicago	60638	IL	Gabino Martinez
8128 West 95th Street	Hickory Hills	60457	IL	Edgar & Alejandra Perez Zunga
8516 South Cicero	Burbank	60459	IL	Antonio Garcia
6911 West 159th St.	Tinley Park	60477	IL	Juan Hurtado
131 East 79th St.	Chicago	60619	IL	Francisco Garcia
1999 West 75th	Woodridge	60517	IL	Francisco Garcia
954 West 87th St.	Chicago	60620	IL	Martin Cruz
4 South Van Buren	Batavia	60510	IL	Benny & Ruben Martinez
4431 West 211th St.	Matteson	60443	IL	Ricky Hurtado
13625 South Cicero Ave.	Crestwood	60445	IL	Antonio & Miguel Garcia
8315 South Cottage Grove	Chicago	60617	IL	Francisco Garcia
2743 Ogden Ave (Route 34)	Oswego	60543	IL	Benny Martinez
470 West 14th St.	Chicago Heights	60411	IL	Gloria Magana-Bravo
14853 South Founders Crossing	Homer Glen	60491	IL	Juan Hurtado
231 Vertin	Shorewood	60431	IL	Jose and Carlos Roman
920 North Bridge Street	Yorkville	60560	IL	Armando Padilla
1901 West 79th St.	Chicago	60620	IL	Fidel Haro

INDIANA

ADDRESS	CITY	ZIP	STATE	CONTACT
6720 Indianapolis Blvd.	Hammond	46323	IN	Joshua Garcia
260 East 84th Drive	Merrillville	46410	IN	Adam Espinoza
2525 Sagamore Prkwy	Lafayette	47905	IN	Patrick & Holly O' Neil
222 East Ridge Rd.	Griffith	46319	IN	Francisco Garcia
59 East Clinton	Frankfort	46041	IN	Samantha & Cody Gosewehr & Kristopher Smock
1502 Lincoln Hwy	Schererville	46375	IN	Javier Ortega
100 West 61st Ave.	Merrillville	46410	IN	Santiago Vaca

Pagliuco Opalacz & Associates, P.C.
1000 Jorie Blvd., Suite 375
Oak Brook, Illinois 60523
Phone (630) 571-4522
Facsimile (630) 571-4584

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INDEPENDENT AUDITOR'S REPORT

**TO THE BOARD OF DIRECTORS OF
PEPE'S INCORPORATED:**

Opinion

We have audited the accompanying financial statements of Pepe's Incorporated (an Illinois Corporation), which comprise the balance sheets as of March 31, 2025, 2024 and 2023, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pepe's Incorporated as of March 31, 2025, 2024 and 2023 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher that 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 statements.

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

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

Pagliuco Ozalay & Associates, P.C.

July 8, 2025

PEPE'S INCORPORATED

BALANCE SHEETS

MARCH 31, 2025, 2024 AND 2023

ASSETS

	2025	2024	2023
CURRENT ASSETS:			
Cash and cash equivalents	$ 282,867	$ 100,865	$ 217,783
Accounts receivable	289,471	345,902	575,310
Loans receivable	-	-	1,919
Inventories	788,234	716,649	1,152,050
Prepaid expenses	62,170	58,060	52,059
Total current assets	1,422,742	1,221,476	1,999,121
PROPERTY AND EQUIPMENT, AT COST:			
Land	37,500	37,500	37,500
Buildings and improvements	861,396	861,396	861,396
Machinery and equipment	2,059,081	2,059,081	2,059,081
Office furniture and equipment	178,551	177,773	178,551
	3,136,528	3,135,750	3,136,528
Less accumulated depreciation	2,912,589	2,858,403	2,789,875
Net property and equipment	223,939	277,347	346,653
OTHER ASSETS:			
Right-of-use assets – operating leases	31,654	103,940	-
Deferred tax assets	384,000	411,000	183,000
Total other assets	415,654	514,940	183,000
	$2,062,335	$2,013,763	$2,528,774

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

PEPE'S INCORPORATED

BALANCE SHEETS

MARCH 31, 2025, 2024 AND 2023

LIABILITIES AND SHAREHOLDERS' EQUITY

	2025	2024	2023
CURRENT LIABILITIES:			
Accounts payable	$ 279,530	$ 296,007	$ 387,452
Compensation and payroll taxes	111,139	86,035	82,676
Income taxes payable	10,300	-	-
Other current liabilities	95,847	91,431	92,907
Current portion of operating lease liabilities	33,082	77,156	-
Total current liabilities	529,898	550,629	563,035
LONG-TERM LIABILITIES:			
Operating lease liabilities – Less current portion	-	32,148	-
Total liabilities	529,898	582,777	563,035
SHAREHOLDERS' EQUITY:			
Common stock – stated value $1 per share; 1000 shares authorized, issued and outstanding	1,000	1,000	1,000
Capital in excess of stated value	1,000	1,000	1,000
Retained earnings	1,530,437	1,428,986	1,963,739
Total shareholders' equity	1,532,437	1,430,986	1,965,739
	$2,062,335	$2,013,763	$2,528,774

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

PEPE'S INCORPORATED

STATEMENTS OF INCOME AND RETAINED EARNINGS

YEARS ENDED MARCH 31, 2025, 2024 AND 2023

	2025	2024	2023
REVENUE:			
Food, supplies and equipment	$6,622,954	$6,114,590	$8,343,618
Franchise fees	424,080	468,796	473,593
Total revenue	7,047,034	6,583,386	8,817,211
COST OF REVENUE:			
Food, supplies and equipment	3,932,657	3,820,603	4,937,753
Production labor	669,425	743,304	1,010,511
Variable overhead	415,979	391,955	345,456
	5,018,061	4,955,862	6,293,720
Contribution margin	2,028,973	1,627,524	2,523,491
FIXED OVERHEAD	645,899	798,840	775,641
Gross margin	1,383,074	828,684	1,747,850
GENERAL AND ADMINISTRATIVE EXPENSES	1,257,204	1,611,027	1,701,955
Income (loss) from operations	125,870	(782,343)	45,895
OTHER INCOME (EXPENSE):			
Interest income	112	78	153
Other income	12,769	19,512	42,216
	12,881	19,590	42,369
Income (loss) before income tax provision	138,751	(762,753)	88,264
INCOME TAX PROVISION (BENEFIT)	37,300	(228,000)	27,400
Net income (loss)	101,451	(534,753)	60,864
RETAINED EARNINGS:			
Beginning of year	1,428,986	1,963,739	1,902,875
End of year	$1,530,437	$1,428,986	$1,963,739

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

PEPE'S INCORPORATED

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2025, 2024 AND 2023

	2025	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$101,451	($534,753)	$ 60,864
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	53,408	69,306	81,518
Deferred income tax	27,000	(228,000)	27,400
Non-cash portion of operating lease expense	72,286	(103,940)	-
Changes in operating assets and liabilities:			
Receivables	56,431	231,327	80,722
Inventories	(71,585)	435,401	(229,366)
Prepaid expenses and taxes	(4,110)	(6,001)	20,748
Accounts payable	(16,477)	(91,445)	(99,405)
Operating lease liabilities	(76,222)	109,304	-
Other obligations	39,820	1,883	24,488
Net cash provided by (used for) operating activities	182,002	(116,918)	(33,031)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	-	-	(76,430)
Net cash used for investing activities	-	-	(76,430)
Increase (decrease) in cash	182,002	(116,918)	(109,461)
CASH AND CASH EQUIVALENTS:			
Beginning of year	100,865	217,783	327,244
End of year	$282,867	$100,865	$217,783
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid during the year	$ -	$ -	$ -
Taxes paid during the year	$ -	$ -	$ -

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

Note:

1. NATURE OF OPERATIONS:

Pepe's Incorporated (the Company) is engaged in the franchising of Pepe's Mexican Restaurants and the production of Mexican food products for its franchised restaurants and its branded product program to various institutional customers. The Company's production facilities are located in Chicago, Illinois. The Company distributes its products along with restaurant supplies and restaurant equipment to its franchisee-operated restaurants located principally in the Chicago and Northwestern Indiana area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES AND POLICIES:

Significant accounting practices and policies followed in the preparation of the accompanying financial statements are set forth below.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue and Cost Recognition

Franchise fees are recognized when a franchised restaurant begins operations. Franchise royalty fees are based on a percentage of franchise restaurant sales and are recognized when earned. When such fees are collectible over an extended period of time and realization is not reasonably certain, recognition of revenue is deferred until cash is received.

The sale of food, supplies and equipment are recognized as revenues upon shipment of the related products to the franchisees, net of sales taxes.

Expenses associated with the preparation of franchise agreements and site selection, as well as the placement and training of franchisee personnel, are charged to expense as incurred.

Advertising and promotion costs are expensed as incurred. During the years ended March 31, 2025, 2024, and 2023, advertising costs totaled $1,554, $1,654, and $806, respectively.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Company considers money market funds and short-term investments with original maturities of three months or less from their purchase date to be cash equivalents.

Note:

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES AND POLICIES (Continued):

Accounts Receivable and Loans Receivable

Substantially all accounts receivable are due from franchisees for purchases of food, supplies, restaurant equipment, printing and promotional items, risk management services, information systems and related services, and for royalties. Loans receivable are accounts receivable from franchisees converted to installment loans. Interest is charged on a franchisee balance based on management's discretion. The Company had no loans receivable at March 31, 2025.

Accounts receivable are presented net of estimated uncollectible accounts of $19,968, $31,165 and $32,780 for the year ended March 31, 2025, 2024 and 2023, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method, and market represents the lower of replacement cost or estimated net realizable value.

Property and Equipment

Property and equipment are recorded at acquisition cost. Depreciation is charged against revenue over their estimated useful lives using the straight-line method. Maintenance and repairs are charged to expense as incurred. Depreciation charged against income during the year ended March 31, 2025, 2024, and 2023, amounted to $53,408, $69,306, and $81,518, respectively.

Leases

Under the Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842) and subsequent amendments, all operating and financing leases exceeding twelve months must be recognized on the balance sheet as amortizable right-of-use assets accompanied by liabilities for the present value of the lease payments that the Company is obligated to make in order to obtain control of the leased assets for the duration of each lease term. Operating leases are included on the balance sheet as operating lease right-of-use assets, other current liabilities, and operating lease liabilities. There are no finance leases included in the financial statements.

Note:

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES AND POLICIES (Continued):

Deferred Income Taxes and Income Tax Provision

The provision for income taxes includes income taxes paid, currently payable or receivable and those deferred. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using enacted tax rates and laws that are expected to be in effect when the differences reverse. Deferred tax assets are also recognized for the estimated future effects of tax loss carryforwards. The effect on deferred taxes of changes in tax rates is recognized in the period in which the enactment date changes. As a result, the effective tax rate may fluctuate. The Company files with cash basis tax reporting. As of March 31, 2025, 2024, and 2023, the Company recorded a net deferred income tax asset balance of $384,000, $411,000 and $183,000, respectively.

3. REVENUE RECOGNITION:

We have analyzed the provisions of the FASB's ASC Topic 606, Revenue from Contracts with Customers, and have concluded that no changes are necessary to conform with the new standard. Our sales contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer. Sales revenues are shown net of discounts and allowances.

4. INVENTORIES:

Inventories consist of the following at March 31, 2025, 2024, and 2023, respectively:

	2025	2024	2023
Finished goods	$268,481	$195,713	$ 261,463
Purchased goods and other	519,753	520,936	890,587
	$788,234	$716,649	$1,152,050

Note:

5. OTHER CURRENT LIABILITIES:

Other current liabilities consist of the following at March 31, 2025, 2024, and 2023, respectively:

	2025	2024	2023
Insurance	$42,356	$39,254	$40,924
Real estate taxes	53,197	51,858	50,700
Sales taxes and other	294	319	1,283
	$95,847	$91,431	$92,907

6. CONCENTRATION OF CREDIT RISK:

At various times during the fiscal year, the Company's cash in bank balances exceeded the Federally insured limits. The Company did not have uninsured cash balances at March 31, 2025.

Approximately 40% of the Company's revenue is derived from one customer.

7. EMPLOYEE BENEFIT PLAN:

The Company maintains a 401(k) retirement plan for the benefit of all eligible employees. The plan allows eligible employees to defer a portion of their annual compensation pursuant to Section 401(k) of the Internal Revenue Code. The Plan provides for Company discretionary matching contributions based on an individual employee's eligible compensation contributed to the plan each year. The Company may also make discretionary nonelective contributions in an amount to be determined by the board of directors for each plan year.

Eligible employees vest in the Company's contributions at the rate of 20% per year beginning after one year of service until fully vested. There were no Company contributions to the employee benefit plan during the years ended March 31, 2025, 2024, and 2023.

Note:

8. OPERATING LEASES:

The Company leases transportation equipment under an operating lease extending through August 2025. The lease provides for monthly payments of $7,065, with annual increases of approximately 3.5%, plus contingent rentals based on usage.

Future minimum lease payments are as follows:

Year ending March 31,	Amount
2026	$33,082

The following summarizes the weighted average remaining lease term and discount rate as of March 31, 2025:

Weighted average remaining lease term	.4 years
Weighted average discount rate	1.07%

9. INCOME TAXES:

Deferred income taxes reflect the tax effect of differences between amounts recorded for financial reporting purposes and for income tax purposes. The tax effects of significant temporary differences that give rise to deferred income tax assets and liabilities are as follows at March 31, 2025, 2024, and 2023, respectively:

	2024	2024	2023
Deferred tax assets:			
Accounts payable & accrued expenses	$146,000	$142,000	$169,000
Net operating loss carryover	532,500	591,000	544,000
	678,500	733,000	713,000

Note:

9. INCOME TAXES (continued):

Deferred tax liabilities:			
Accounts receivable & prepaid expenses	(105,500)	(121,000)	(189,000)
Inventory	(156,000)	(156,000)	(280,000)
Financial statement basis of property and equipment in excess of income tax basis	(33,000)	(45,000)	(61,000)
	(294,500)	(322,000)	(530,000)
Net deferred tax assets	$384,000	$411,000	$183,000

The provision (benefit) for income taxes reflected in the determination of net income (loss) is summarized as follows for the fiscal years ended March 31, 2025, 2024, and 2023, respectively:

	2025	2024	2023
Current:			
Federal	$ 10,300	$ -	$ -
State	-	-	-
	10,300	-	-
Deferred	27,000	(228,000)	27,400
Income tax provision (benefit)	$ 37,300	($228,000)	$ 27,400

The Company continually evaluates expiring statutes of limitations, proposed settlements, changes in tax law and new authoritative rulings. The Company's evaluation on March 31, 2025 revealed no uncertain tax positions that would have a material impact on the financial statements. The 2021 through 2023 tax years remain subject to examination by the IRS. The Company does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

10. SUBSEQUENT EVENTS:

The Company has evaluated subsequent events through July 8, 2025, the date which the financial statements were available to be issued. Based on our evaluations no material events have occurred requiring disclosure.

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Pepe's offers you a franchise, it must provide this disclosure document to you 14 calendar -days before you sign a binding agreement with, or make a payment to the franchisor or an affiliate in connection with the proposed franchise sale.

If Pepe's does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state agency listed on Exhibit A.

The franchisor is Pepe's Incorporated located at 1325 W. 15th St. Chicago, Illinois 60608. Its telephone number is (312)733-2500.
Issuance date: July 16, 2025

The franchisor seller or this offering is Edwin A. Ptak, Franchise Sales Director, Pepe's Incorporated 1325 W. 15th Chicago, Illinois 60608 (312) 733-2500.

Pepe's Authorizes the respective state agencies identified on Exhibit B to receive service of process for it in the particular state.

I received a disclosure document dated July that included the following Exhibits.

A. State Agencies
B. Agents for Service of Process
C. Franchise Agreement
D. List of Franchisees
E. Financial Statements

Date: ________________

(Do not leave blank)

____

Signature of Prospective Franchisee

____

Print Name

You may return the signed receipt either by signing, dating, and mailing it to Pepe's Incorporated 1325 W. 15th Street, Chicago, Illinois 60608 or by faxing a copy of the signed and dated receipt to Pepe's at (312) 733-2564.

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.

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