# FRANCHISE DISCLOSURE DOCUMENT

**PIZZA FACTORY, INC.**
**A CALIFORNIA CORPORATION**
**49430 ROAD 426, SUITE D, PO BOX 989**
**OAKHURST, CALIFORNIA, 93644**
**(559) 683-3377**
**www.pizzafactory.com**
**info@pizzafactoryinc.com**

The franchise offered is for a pizza and pasta restaurant which offers both sit-down and take-out service and may include delivery service. We offer two franchise programs:

1. A single Pizza Factory restaurant. The total investment necessary to begin operation of a Pizza Factory franchise will range from $308,000 - $552,000. This estimate includes the initial payment of $20,000 to Pizza Factory.
2. Multiple Pizza Factory restaurants within a defined area pursuant to an Area Development Agreement. There is an initial development fee of one half of the total Initial Franchise Fees payable for all restaurants to be developed under the Area Development Agreement (excluding the first Pizza Factory restaurant), plus $20,000 representing the initial franchise fee for your first Franchise Agreement. You will pay an initial franchise fee of $20,000 for the first restaurant. However, we will credit the development fee against the initial franchise fees (at the rate of $7,500 per Franchise Agreement for the second through fourth Pizza Factory restaurants and the rate of $5,000 per Franchise Agreement for the fifth and subsequent Pizza Factory restaurants).

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

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

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

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

Issuance date: May 18, 2020, as amended November 17, 2020

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 B. |
| **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 C 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 Pizza Factory 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 Pizza Factory franchisee?** | Item 20 or Exhibit B lists current and former franchisees. You can contact them to ask about their experiences. |
| **What else should I know?** | These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents. |

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

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

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

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

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

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

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

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

## Some States Require Registration

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

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

## **Special Risks to Consider About *This* Franchise**

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

1. **<u>Out-of-State Dispute Resolution</u>.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in California. 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 California 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.

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

(a) A prohibition on the right of a franchisee to join an association of franchisees.

(b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.

(c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.

(d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) The term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.

(e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.

(f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

(g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

a. The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.

b. The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

c. The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

d. The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

(h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

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

## ITEM 1
## THE FRANCHISOR AND ANY PARENT, PREDECESSORS AND AFFILIATES:

To simplify the language in this Disclosure Document, "we", "us" or "Pizza Factory" means Pizza Factory, Inc., the Franchisor. "You" means the person, corporation, partnership, or other entity who/which buys the franchise. Pizza Factory is a California corporation that was incorporated on June 3, 1982. Pizza Factory does business in California as "Pizza Factory, Inc." Pizza Factory's principal business is located at 49430 Road 426, Suite D, P.O. Box 989, Oakhurst, California, 93644.

Pizza Factory is affiliated with FV Pizza Factory, LLC a California limited liability company currently doing business as Pizza Factory - French Valley in Winchester, California; Anza PF, LLC, a California limited liability company doing business as Anza Pizza Factory, Big Foot Partners, LLC, a California limited liability company doing business as Willow Creek Pizza Factory; and PF Burlington, LLC a Washington limited liability company currently doing business as Pizza Factory – Burlington in Burlington, Washington. FV Pizza Factory, LLC's principal place of business is located at 30676 Benton Road, Winchester, California, 92596. Big Foot Partners' principal place of business is located at 1601 Triangle Drive, Ridgecrest, California, 93555. Anza PF, LLC's principal place of business is located at 56030 Highway 371, Unit 9, Anza, California 92539. PF Burlington LLC's principal business address is 107 Cedar Avenue, Burlington, Washington 98233. No business organization or entity controls Pizza Factory and Pizza Factory has no predecessors or parents.

Pizza Factory's agents for service of process are set out in Exhibit H of this Disclosure Document.

Pizza Factory's business is the development, sale and support of franchises which are in the form of pizza restaurants known as Pizza Factory and is not involved in any other type of business activity. Currently, Pizza Factory also owns and operates one Pizza Factory restaurant in Show Low, Arizona.

A full-service Pizza Factory restaurant (typically over 1,500 square feet) serves pizza, pasta, sandwiches, soft drinks, wine, and beer. Express Pizza Factory restaurants (typically up to 1,500 square feet) offer all food and beverages that full-service Pizza Factory restaurants do but do not offer wine and beer. Full-service Pizza Factory restaurants offer dine-in, take-out, and delivery. Express Pizza Factory restaurants have limited to no seating and offer the same food and beverages (other than beer and wine) that full service restaurants offer and sell. Both full-service and express Pizza Factory restaurants offer take-out and delivery.

You will compete with other businesses and restaurants serving prepared foods including other businesses that sell food items. The restaurant business generally is highly competitive and is affected by variations in the preferences of the public, population and traffic trends and patterns, and local and national economic conditions, many of which are beyond the control of either Pizza Factory or the franchisee.

If you participate in our Area Development Program, we assign a defined area within which you must develop and operate a specified number of Pizza Factory restaurants within a specified period of time. The development area may be one city, one or more counties, one or more states, or some other defined geographic area. You will sign an Area Development Agreement (Exhibit E) which will describe your development area and your development schedule and other obligations. For each Pizza Factory restaurant you open pursuant to the Area Development Agreement, promptly after our approval of the site for the Pizza Factory restaurant, you will sign a separate Franchise Agreement on the then current form used by us at the time, except to the extent otherwise provided in your Area Development Agreement.

You must comply with many state and local regulations regarding the construction and operation of your Pizza Factory restaurant. All Pizza Factory restaurants are required to comply with federal, state and local laws applicable to the operation and licensing of a prepared food service restaurant including approvals by local and state health agencies. It is important that you become aware of such local and state regulations and consider such prior to purchasing a franchise.

You must obtain a license to sell beer and wine for consumption on site before you open a full-service Pizza Factory restaurant and unless you are able to obtain such a license, you may not operate a Pizza Factory restaurant. The availability, procedures and cost to obtain such a license vary greatly depending upon the location of your Pizza Factory restaurant. Further, state and local laws governing the sale of alcohol vary greatly including possible liability arising from or related to the sale and consumption of alcohol.

There may be numerous other laws that affect the operation of a commercial restaurant including federal, state, and local agencies governing food preparation, service and sanitary conditions, employee's safety, regulations and restrictions, and other agencies or laws which may govern and regulate the emissions of ozone, carbon monoxide and other particular matters, or otherwise regulate air quality inside or around the perimeter of a business, such as limitations on the use of tobacco products. In addition, the Federal government, State governments and local jurisdictions have enacted and may continue to enact various regulations, orders and recommendations addressing the global COVID-19 pandemic, including "shelter in place," "safer at home" and "social distancing" orders, that may apply to the operation of your Pizza Factory restaurant. These regulations and orders may, for example, require the temporary closure of what they define as "non-essential" businesses, temporarily restrict the products and services that may be offered from your Pizza Factory restaurant, limit seating and/or occupancy, and/or limit hours and scope of operations. You should investigate whether there are regulations, orders or other requirements or recommendations that may apply in the geographic area in which you are interested in locating your Pizza Factory restaurant and should consider both their impact and cost of compliance.

Pizza Factory has conducted a business of the type to be operated by you by regularly operating on a temporary basis one or more company-owned Pizza Factory restaurants. Further, the current principal officers and shareholders of Pizza Factory have been in the business of operating pizza and pasta restaurants since 1990. Other than operating a Pizza Factory restaurant, none of our affiliates have offered franchises or operated any other business.

Pizza Factory has offered franchises for Pizza Factory restaurants since 1985. Pizza Factory has never offered franchises in any other line of business and Pizza Factory has no predecessors. Pizza Factory is not involved in any other line of business other than selling Pizza Factory franchises, operating a few company-owned Pizza Factory restaurants and assisting owners of Pizza Factory franchises.

## ITEM 2
## BUSINESS EXPERIENCE

<u>President – Mary Jane Riva</u>

Ms. Riva has served as our President since September 2012. Prior to that, she was the Managing member of Redhawk Pizza, LLC, which owns and operates Temecula Pizza Factory in Temecula, California, from 2000 to 2014. She has also served as a Managing Member of Big Foot Partners, LLC, in Ridgecrest, California, since March 2014; a Managing member of FV Pizza Factory, LLC, in Winchester, California, since 2006; a Managing Member of Anza PF, LLC, in Anza, California, since December 2016, a Managing Member of PF Burlington, LLC in Burlington, Washington since 2018 and was a Managing Member of PF Port Townsend, LLC in Port Townsend, Washington from 2018 to 2019.

<u>Secretary and Treasurer – Robert Raymond Riva</u>

Mr. Riva has served as our Secretary and Treasurer since September 2012. From 2008 until 2013 he was a Real Estate Agent at Rancon Real Estate in Murrieta, California. He has also served as a Managing Member of Big Foot Partners, LLC, in Ridgecrest, California, since March 2014; a Managing member of FV Pizza Factory, LLC, in Winchester, California, since 2006; a Managing Member of Anza PF, LLC, in Anza, California, since December 2016, and a Managing Member of PF Burlington, LLC in Burlington, Washington since 2018 and a Managing Member of PF Port Townsend, LLC in Port Townsend, Washington from 2018 to 2019.

<u>Vice President of Operations - Steve Gibbs</u>

Mr. Gibbs joined us in July, 2020 as our Vice President of Operations. Prior to joining us, he was the Director of Company Restaurant Operations for Global Franchise Group, in Elk Grove, California from February, 2015 until May, 2020. Prior to that, he was the Franchise Business Director for Cici's Pizza in Irving, Texas from February, 2009 until May, 2018.

<u>Vice President of Franchise Development - Laura Tanaka</u>

Ms. Tanaka has been our Vice President of Franchise Development since August, 2020. Prior to joining us, from November 2011 to April 2020, she was the Director of Franchise Development for Del Taco, LLC, in Lake Forest, California.

## ITEM 3
## LITIGATION

*Pizza Factory, Inc. v. Willow Glen Pizza Factory, Inc., Superior Court of the State of California in and for the County of Madera*, Case No. MCV081699. On Jul 29, 2019, Pizza Factory, Inc. filed a lawsuit for (1) breach of contract; and (2) breach of guaranty against Willow Glen Pizza Factory, Inc. ("Willow Glen"), its predecessor-in-interest Hardwood Flooring Installers Supply Co., Inc. ("Hardwood Flooring") and guarantor Vernon Butch Kirk. (October 17, 2019). On October 17, 2019, Willow Glen, Hardwood Flooring and Mr. Kirk filed a cross-complaint against Pizza Factory, Inc., its shareholder Mary Jane Riva and another individual Robert Riva alleging that Pizza Factory and the Rivas purportedly assured him that they would assist him to make sure his business succeeded by, among other things, conducting a professional study to determine the correct location for a Pizza Factory store in or around San Jose, California. Based on these allegations, the Cross-Complaint includes claims for Breach of Contract, Negligent Misrepresentation, Breach of Oral Agreement, Fraud and Deceit, and Breach of the Covenant of Good Faith and Fair Dealing. Willow Glen is seeking attorney's fees, costs of suit, general damages, compensatory damages, special damages and any other legally recoverable damages in addition to punitive and exemplary damages.

There is no other litigation that is required to be disclosed in this item.

## ITEM 4
## BANKRUPTCY

There is no bankruptcy that is required to be disclosed in this item.

## ITEM 5
## INITIAL FEE

### Franchise Agreement

You must pay a $20,000 lump sum initial franchise fee when you sign the franchise agreement. The initial franchise fee is the same regardless of whether you operate a full-service or express Pizza Factory restaurant. The initial franchise fee is not refundable under any circumstances. If you have not located a site that is acceptable to you and us within one year following the date of your franchise agreement, you may elect to terminate your franchise agreement by providing us with written notice of your election to terminate. If you so terminate your franchise agreement, we will refund the initial franchise fee you paid less $10,000 if you sign and deliver to us a general release of claims on our then-current form.

If you are signing your franchise agreement as a renewal franchise agreement, your initial franchisee fee will be revised to reflect the fee you must pay under your existing agreement.

### Area Development Agreement

When you sign our current form of Area Development Agreement, you must pay us an initial development fee equal to one half of the total Initial Franchise Fees payable for all restaurants to be developed under the Area Development Agreement (excluding the first Pizza Factory restaurant), plus $20,000 representing the initial franchise fee for your first Franchise Agreement. When we accept the site for each Pizza Factory restaurant, you will sign a separate Franchise Agreement and pay us an initial franchise fee as outlined in the chart below.

| Restaurants | Initial Franchise Fee |
|---|---|
| 1st Traditional Pizza Factory restaurant | $20,000 |
| 2nd through 4th Traditional Pizza Factory restaurants | $15,000 |

| Restaurants | Initial Franchise Fee |
|---|---|
| 5th and subsequent Traditional Pizza Factory restaurants | $10,000 |

However, we will credit the development fee against the initial franchise fees at the rate of $7,500 per Franchise Agreement for the second through fourth Pizza Factory restaurants and the rate of $5,000 per Franchise Agreement for the fifth and subsequent Pizza Factory restaurants, until the development fee is exhausted. If you signed a form of Franchise Agreement which differs from our current form, your initial franchise fees will be determined in accordance with your Area Development Agreement. The development fee is fully earned by us when paid, is uniform for franchises currently being offered in this state and is not refundable under any circumstances.

At an appropriate time prior to the scheduled opening of your first Pizza Factory restaurant, Pizza Factory will provide to you an initial training program which either one or two persons may attend and additional personnel may attend the initial training program at the same time for an additional charge of $3,500 per person. The charge for either one or two persons to attend the initial training program at the same time is included in the franchise fee. The charge for additional personnel to attend at the same time is $3,500 per person.

In certain cases, and at the sole discretion of Pizza Factory, the amount of the franchise fee may be reduced for existing franchisees in good standing. In addition to the reduced franchise fee, the applicant must pay Pizza Factory for the services of Pizza Factory's personnel to the extent that their assistance is necessary to aid the applicant beyond what is normally required to develop and open a new franchise restaurant. Currently, Pizza Factory is charging the sum of $150 per hour or $500 per day for field work plus reimbursement for any travel, lodging or other expenses incurred to provide such services. Further, Pizza Factory is also currently charging the sum of $125 per hour for administrative services (work not performed in the field) plus reimbursement for any expenses incurred to provide such services. The charge for any additional training which might be required would be the amount then being charged for additional training, currently $500 per day.

In 2019, franchisees paid us initial franchise fees ranging from $0 to $30,000. We offer a 25% discount on the initial fee for qualified Veterans of the U.S. Armed Forces. In order to qualify, you must, among other business requirements, have received an Honorable Discharge and must own at least 50% of the ownership interests in the franchisee entity, or the Pizza Factory restaurant. You must advise us of Veteran status (and provide evidence of qualification) before signing your Franchise Agreement.

## ITEM 6
## OTHER FEES

| Type of fee | Amount | Due Date | Remarks |
|---|---|---|---|
| Royalty | 5% of total Net Sales. | Payable monthly on or before the last day of the following month. | "Net Sales" means the total of all revenues received or receivable as payment, whether in cash, for credit or barter |

| Type of fee | Amount | Due Date | Remarks |
|---|---|---|---|
| | | | or received as donation, or other means of exchange (and, if for credit or barter, whether or not payment is received therefor), on account of any and all goods, merchandise, services or products sold or provided in or from the your Pizza Factory Restaurant. "Net Sales" excludes the following: (i) sums representing taxes collected directly from customers and remitted to the applicable governmental authority; (ii) tips or gratuities paid to employees; and (iii) proceeds from isolated sales of furniture, fixtures and equipment (other than inventory). |
| Advertising Fee | 3% of Net Sales. | Same as royalty fee. | The Advertising Fee is imposed by us and payable to us. The Advertising Fee is non-refundable and varies among franchisees. |
| Technology Fee | Our then-current monthly fee, presently $200 per month | Same as royalty fee | We may change the amount of the Technology Fee on not less than 30 days prior written notice. Among other things, we will use the technology fee (which may be used in connection with other funds, including advertising fees collected) to offset, reimburse us or pay for our direct and indirect |

| Type of fee | Amount | Due Date | Remarks |
| --- | --- | --- | --- |
| | | | expenses in connection with the use and implementation of various technology, including, by way of example and not limitation, online ordering systems and loyalty programs. |
| Service Fee | $75 per month or 10% of amount due, whichever is greater. | Immediately upon assessment. | Assessment for each month that the Royalty fee or Advertising fee remains unpaid. If both remain unpaid then the fee is $75 per month (per fee) or 10% of each amount due, whichever is greater. |
| Initial Training for an Additional Person | $3,500 per person | Prior to commencement of training. | The initial training covered by the initial franchise fee is for two persons. Each additional person attending at the same time requires an additional payment. |
| Optional Initial Training | $500 per person per day for the first two persons and $250 per day for each additional person. | At time training is scheduled. | You and we may agree upon extended initial training. |
| Other Supplemental or Additional Training | The rate then being charged for additional training, currently $500 per day for the first two persons and $250 per day for each additional person. | At the time training is scheduled. | Supplemental training required by us; additional training if existing franchisee acquires additional restaurant, etc. |
| Transfer Fee | $15,000 | Prior to consummation of transfer. | Payable when you sell, transfer or assign your Pizza Factory restaurant subject to reduction at our sole discretion. |
| Renewal Fee | $5,000 | 30 days before | |

| Type of fee | Amount | Due Date | Remarks |
|---|---|---|---|
| | | expiration of term. | |
| Voluntary or Mandatory recurrent training. | The rate then being charged for additional training, currently $500 per day for the first two persons and $250 per day for each additional person. | On or before date training commences. | Failure to attend a scheduled voluntary or mandatory recurrent training will result in a charge of $250 per day unless excused. |
| Relocation Fees and In-Store Training Fees | (1) for field work, $150 per hour or $500 per day; (2) $125 per hour for administrative services (non-field work); (3) reimbursement of travel, lodging, and other expenses incurred. | Within 30 days of invoicing. | See Item 12 (Territory) regarding requirements for relocation. |
| Sales taxes, trademark license taxes, and other taxes imposed on, collected from or paid by us based on services or products provided to you. | Actual amount paid, imposed, or collected by taxing authority. | At time of payment for services or product or within 10 days of invoice. | Does not include corporate income taxes.<br><br>You must reimburse us for any sales taxes, trademark license taxes, and other taxes paid by us on your behalf. |
| Liquidated damages | | | 24 times the average monthly royalty and technology fee during the prior two years of operation. |

**Notes:**

1) No portion of any of these fees is refundable except portions of the training fees for additional personnel. Fees are uniformly imposed in this state. Fees are the same for full-service and express Pizza Factory restaurants.

2) These fees are imposed by and are payable to Pizza Factory. The fees are non-refundable and subject to change.

3) You must make payments of Royalties, Advertising fees and Service fees by electronic transfer on a monthly basis. No less than 30 days prior to opening your Pizza Factory restaurant, you must provide bank information to us to allow for electronic transfer and, thereafter, provide us with any changes to that information within 48 hours of the effective time of the change.

4) Your obligation to make these payments and perform other obligations of the Franchise Agreement is secured by a standard security agreement and a UCC-1 financing statement, sample copies of which are attached to the Franchise Agreement (Exhibit "D") as Exhibits 1 and 2, respectively. By signing the security agreement and authorizing us to file a UCC-1 financing statement, you will give us a security interest in all of your equipment and fixtures. You must sign the security agreement and financing statement prior to opening your store for business. We will accept a security interest in the equipment and fixtures which is second in priority only to a security interest you have given a lender for the purpose of establishing your Pizza Factory restaurant or purchasing the equipment or fixture. Otherwise, the security interest you must give us must be first in priority. (See Section 4.19 of the Franchise Agreement.)

## ITEM 7
## ESTIMATED INITIAL INVESTMENT

The following chart describes the estimated initial investment for a single Pizza Factory restaurant:

**YOUR ESTIMATED INITIAL INVESTMENT**

| TYPE OF EXPENDITURE (Note 8) | AMOUNT | | METHOD OF PAYMENT | WHEN DUE | TO WHOM PAYMENT IS TO BE MADE |
|---|---|---|---|---|---|
| | LOW | HIGH | | | |
| INITIAL FRANCHISE FEE (Note 1) | $20,000 | $20,000 | Lump sum | At signing of Franchise Agreement | Pizza Factory |
| WAGES, TRAVEL AND LIVING EXPENSES DURING TRAINING | $10,000 | $15,000 | As incurred | During training | Airlines, hotels and restaurants (non-refundable) |
| REAL ESTATE AND IMPROVEMENTS (Note 2) | $125,000 | $250,000 | As incurred | As incurred | Vendors |
| EQUIPMENT, SIGNAGE, AND FIXTURES (Notes 3, 8) | $85,000 | $170,000 | As incurred | As incurred | Vendors |

| TYPE OF EXPENDITURE (Note 8) | AMOUNT | | METHOD OF PAYMENT | WHEN DUE | TO WHOM PAYMENT IS TO BE MADE |
|---|---|---|---|---|---|
| | LOW | HIGH | | | |
| DEPOSITS, LICENSE FEES & OTHER PREPAID EXPENSES (Note 4) | $10,000 | $20,000 | As incurred | Prior to opening | Suppliers, utilities, Insurance providers, government agencies, etc. (Note 5) |
| OPENING INVENTORY /INCIDENTALS | $10,000 | $12,000 | Lump sum | Prior to opening | Suppliers and vendors. Normally non-refundable. |
| ADVERTISING FOR OPENING (Note 5) | $1,000 | $3,000 | As incurred | As incurred | Newspapers, radios, printers, etc. not including payments to Pizza Factory Advertising Fund |
| ADVERTISING - First 3 months after opening in addition to contributions to Advertising Fund (Note 6) | $2,000 | $2,000 | As incurred | Monthly | Newspapers, radios, printers, etc. |
| ADDITIONAL FUNDS - 3 months (Note 7) | $ 45,000 | $60,000 | As incurred | As incurred | Employees, suppliers, utilities, etc. |
| TOTAL (Note 8) | $308,000.00 | $552,000.00 | | | |

As described in Item 5, if you sign an Area Development Agreement, you must pay us an initial development fee equal to one half of the total Initial Franchise Fees payable for all restaurants to be developed under the Area Development Agreement (excluding the first Pizza Factory restaurant), plus $20,000 representing the initial franchise fee for your first Franchise Agreement. When we accept the site for each Pizza Factory restaurant, you will sign a separate Franchise Agreement and pay us an initial franchise fee as outlined in the chart below.

| Restaurants | Initial Franchise Fee |
|---|---|
| 1st Traditional Pizza Factory restaurant | $20,000 |
| 2nd through 4th Traditional Pizza Factory restaurants | $15,000 |
| 5th and subsequent Traditional Pizza Factory restaurants | $10,000 |

However, we will credit the development fee against the initial franchise fees at the rate of $7,500 per Franchise Agreement for the second through fourth Pizza Factory restaurants and the rate of $5,000 per Franchise Agreement for the fifth and subsequent Pizza Factory restaurants, until the development fee is exhausted.

(**Notes to Item No. 7.)**

1. Initial Franchise fee is $20,000. No portion of this fee will be refunded once paid. We do not finance this or any other fee or cost incurred by you.

2. This estimate for Real Estate and Improvement costs is based upon leasing or purchase of adequate space. You are responsible for finding a location for your Pizza Factory restaurant which substantially complies with the Site Selection Guidelines provided to you by us. If you are not purchasing the building from which to operate your Pizza Factory restaurant, you must enter into a lease with an initial term of no less than five (5) years with option(s) to renew totaling no less than an additional five (5) years; subsequent renewals must be for a term of no less than five (5) years or the remaining term of the franchise, whichever is less; month-to-month leases are prohibited without our express written consent. **The cost of purchasing commercial property may be much higher and may vary greatly depending upon location, size, age, and type of construction of the building.** The total amount of funds necessary to lease suitable restaurant premises will vary from location to location depending on a number of factors, including: location, size, term of lease, the extent of new construction or remodeling, the extent to which the landlord will build or remodel, and the amount of the security deposit. Currently, the typical full-service Pizza Factory restaurant has 2,500 to 3,500 square feet and is usually located in shopping centers or storefront type buildings. Express Pizza Factory locations are approximately 1,500 square feet. If you are leasing a location for your Pizza Factory restaurant, you negotiate and obtain the lease, contract directly with the landlord of the premises and make whatever financial and creditor arrangements necessary with the landlord or other third parties, and obtain necessary funds or credit for leasehold improvements from whatever sources you choose. Prior to signing the lease or purchasing the premises, you must obtain written confirmation from Pizza Factory that the location and lease or any renewal or modification of a lease, substantially complies with the Site Selection Guidelines Pizza Factory will provide to you. Again, we do not offer any form of financing for any of the fees or investment costs. These costs are normally not refundable except for security deposits depending upon your arrangement with your landlord.

3. Although we may assist you in contacting professionals and negotiating with them for the preparation of plans, and contacting and negotiating with suppliers for the installation of fixtures and equipment, you contract directly with the contractors, purveyors and suppliers and make whatever financial and credit arrangements are necessary directly with them or obtain necessary funds or credit from whatever source you choose. Based upon our experience, you should be able to finance approximately one-half of the equipment and fixtures through either the suppliers, purveyors or other sources of financing which you might choose. Normally, the expenses you incur for these services, equipment and fixtures are non-refundable. The amount estimated includes all equipment, signage, fixtures, and computer/Point of Sale equipment and software to commence operation of a Pizza Factory restaurant.

4. Although we do not require you to pay any security deposits, you may be responsible for paying security deposits to the landlord as well as to utility suppliers. This category also includes application fees and costs for an on-sale beer and wine license and any other licenses or permits required by the state or local law in order to commence operation of your Pizza Factory restaurant. Depending upon arrangements with utility companies and providers of supplies, deposits may be fully or partially refundable. Normally, license fees are non-refundable.

5. Many franchisees wish to purchase special advertisements locally, especially at the time they open their business. Normally, fees for advertising are non-refundable depending on the arrangement made with the provider and the amount of work which has been performed by the provider at the point of cancellation. This expense is in addition to advertising fees paid to us.

6. This estimates other initial start-up expenses over and above typical revenue during the first three months. These expenses include additional payroll costs normally incurred during the first three months after opening. These figures are estimates and we can not guarantee that you will not have additional expenses starting the business. Your costs will depend upon factors such as: how much you follow our methods and procedures; your management skill, experience and business acumen; local economic conditions; the local market for Pizza Factory products; the prevailing wage rate; competition; and the sales level reached during the initial period. Once incurred, these expenses are normally not refundable.

7. We relied on the substantial experience of its principal officers in the pizza and pasta restaurant business to compile these estimates. You should review these figures carefully with a business advisor, commercial real estate broker, certified public accountant, contractors, and suppliers, all of whom you contact directly before making any decision to enter into the Franchise Agreement, pay the franchise fee, and purchase or lease a site at which you will operate your Pizza Factory restaurant.

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

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

All requirements of dough mix, spaghetti sauce spice, salad bar items, pizza sauce spice, fiesta seasoning and meatball seasoning, and any other ingredient for authorized menu items, as may be designated by us at any time, must be purchased from the purveyor designated by us, presently Sierra Seasoning, a Washington based limited liability company which operates from Oakhurst, California. All other requirements of food, beverages (other than beer), equipment, fixtures, Point of Sale register, hardware and software, other materials and supplies must be purchased from suppliers designated by us and, if not designated, from any other supplier meeting the standards and requirements set by us. All signs, posters, or other forms of displays or advertisements used in the operation of a Pizza Factory restaurant must be approved by us and those bearing the name and trademarks of Pizza Factory must be leased or purchased from us, from a supplier designated by us, or as otherwise approved by us.

Dough mix, spaghetti sauce spice, fiesta seasoning, pizza sauce spice, meatball seasoning, and all other required mixes, spices and seasonings, and any other item we designate which must be purchased from Sierra Seasoning will represent 3%-5% of your overall cost of establishing the store and 1% - 3% of your overall purchases in operating the store. Your purchase or lease of other items from suppliers designated by us will be approximately 80%-85% of the total purchases in connection with operating a Pizza Factory restaurant.

From time to time, we may be able to negotiate a contract with a major distributor, such as Coca-Cola, which may provide a marketing incentive in the event that all our franchisees agree to purchase the designated product. We reserve the right, upon 30 days' notice, to require that you purchase such a designated product. We reserve the right to retain any marketing incentives received as compensation for arranging for such products. There are no purchasing or distribution cooperatives associated with the franchise program. We may, but are not required to directly or indirectly provide any material benefits to a franchisee based on a franchisee's purchase of particular products or services or use of particular suppliers. We currently contribute the marketing incentive received from Coca-Cola to the Pizza Factory Advertising Fund.

In the year ending December 31, 2019, we received no revenue of any type from the lease or purchase to franchisees of any signs, posters, or other forms of displays except those amounts received as compensation from the Advertising Fund as described in Item 11.D.(3) of this Disclosure Document. We received no payments or other consideration from any designated suppliers based on franchisee purchases except as follows: Coca-Cola, Dr. Pepper and Dining Alliance. The total revenue received by us from all required purchases and leases of products and services to franchisees for the year ending December 31, 2019 was $ 134,976.42 which amounted to 2.69% of Pizza Factory's total revenues of $5,019,143.

The cost of equipment purchased in accordance with our specifications represents 30 - 37% of the total purchases in connection with the establishment of a Pizza Factory restaurant.

The fixtures and decoration of your Pizza Factory restaurant premises must be in accordance with the specifications provided by us. Also, dishes, glassware, eating utensils, table linens and menus must be in accordance with the specifications set out by us and must be purchased by suppliers we approve. All other foods (other than pizza sauce spice, spaghetti sauce spice, fiesta seasoning, meatball seasoning, dough mix, salad bar items, and any other ingredient for authorized menu items which currently are or may be designated by us), beverages (other than beer), materials and supplies must be purchased from suppliers who meet the standards and requirements provided by us, subject to our rights to designate a particular product or purveyor in the future upon 30 days' notice. All specifications necessary to establish and operate your Pizza Factory restaurant are either contained in the Operations Brand Standards Manual (the "Manual") or will be provided to you by us in writing after you sign the Franchise Agreement.

Your Pizza Factory restaurant must be operated in accordance with the standard of conduct and procedures set forth in the Pizza Factory Manual. The Manual requires that you maintain the uniformity of appearance, service, products, and marketing procedures including maintenance of the authorized appearance and size of the premises, display of trade names and trademarks, maintenance of specified equipment, furnishings, signs and other personal property in excellent working condition and to our specifications which may be updated from time to time. Total for all refurbishments may not exceed 5% of your Net Sales from the date you open your restaurant to the date you are required to make the refurbishment. Newspaper racks, jukeboxes, gum machines, games, recreational equipment (e.g., bounce houses, playground equipment, etc.) are not permitted on the premises and cigarettes, other tobacco products, and any other items may not be sold on the premises unless authorized by us in writing. You may install arcade vending machines at a location in or on the premises if it is approved in advance and in writing by us. The premises are to be operated in a quiet, respectable, and appropriate fashion suitable for a family-style restaurant and other types of businesses may not be operated from a Pizza Factory restaurant. Pizza Factory franchisees must accept payment by United States coin, currency, bank debit cards, and common credit cards including VISA® and MasterCard®.

Neither Pizza Factory nor any of our officers, principals, or affiliates hold an ownership interest in any supplier of goods or services required to either establish or operate a Pizza Factory franchise.

Presently, you must purchase particular items to establish and operate your Pizza Factory restaurant. You must purchase the following items from approved and/or designated suppliers, as we prescribe: (i) Seasoning, Dough Mix and Spices; (ii) other required Pizza Factory Brand ("Proprietary") food items; (iii) Non-Pizza Factory brand ("non- proprietary") food items but specific brand/type/supplier required; (iv) Required non-proprietary food items - no specific brand/type required; (v) Required paper products with Pizza Factory Service or Trademarks; (vi) other required paper products - specific brand/type required; (vii) other required paper products - no specific brand/type required; (viii) Restaurant Equipment – specific brand/type required; (ix) Interior Colors and seating package – specific brand/design required; (x) Computer/Cash Register System – specific brand/type of hardware and software; and (xi) Advertising products. Currently, the approved suppliers for these products are: Sierra Seasoning; Saladino's, Inc., and Food Services, Inc. ("non-affiliated suppliers"). Disclosure of the specific brands, models, specification and other particulars for required goods, services and equipment will be made to you as part of the franchise program, after you sign the franchise agreement.

Neither Pizza Factory nor any of our officers, nor any of our shareholders own an interest in a "non-affiliated supplier." Although you may not be restricted as to the supplier which provides these items, you must still comply with any brand/type/design requirements specified by us. All advertising material must be approved by us in writing before you may use it regardless of whether you use an approved or non-approved supplier.

We approve suppliers based upon the supplier's demonstration that it is able to supply a commodity to the franchisee which meets our specifications for such commodity, and that the supplier is of good standing in the business community with respect to its financial soundness and the reliability of its product and service. Except for items required to be purchased only from Sierra Seasoning, alternate suppliers may be approved for other products and supplies. Although certain brand items are required to be used by Pizza Factory restaurants, alternate brands or type of products for other restricted items may be approved for use. If you would like to purchase an item from another supplier or would like to use a different brand/type of product than required, you may request that the alternate supplier/brand be approved by us. Based upon the information and samples you supply to us, we will test the item supplied for its suitability for use in a Pizza Factory restaurant and/or review the proposed supplier's/manufacturer's financial records, business reputation, delivery performance, credit rating and other information. Our review typically is completed in 30 days and we will not unreasonably withhold approval. However, you will be charged an amount by us which will not exceed the actual cost of such testing and investigation. This procedure does not apply to any product for which we have designated a specific supplier, such as Sierra Seasoning or a particular product such as Sierra Seasoning's products or Pizza Factory brand items. The criteria we use for approval of an alternate supplier and/or brand is available to you upon written request. However, you are not permitted to contract with any alternative supplier or use non-approved required suppliers or products without our prior written approval.

We reserve the right to grant or revoke approval of suppliers or specific brands at any time for reasonable cause based upon the performance and reliability of the supplier/manufacturer and/or if the product offered fails to meet the minimum criteria. If approval is granted to a new supplier or if approval of a supplier/brand is revoked by us, all franchisees will be notified in writing of the approval or revocation and the effective date of such.

There may be times when you must make certain necessary refurbishments to your Pizza Factory restaurant which must be made within 30 days after notice from us subject to certain limitations as mentioned in Section 4.08 of the Franchise Agreement, a copy of which is attached as Exhibit "D."

We issue specifications for the purpose of maintaining the uniformity and quality standards of Pizza Factory restaurants and for the purpose of presenting a unique product, served in a unique manner, which the public can identify as being a Pizza Factory product. We reserve the right to modify the specifications at any time. You will be notified in writing of the nature of the modification and its effective date as far in advance as possible. In the case of modifications of fixtures, architectural design or decoration of the restaurant premises, such modifications will not be applicable to existing franchises or to franchises which are in the process of being constructed or remodeled, unless such modifications can be implemented without substantial additional cost to you (not to exceed 5% of the Net Sales from the date of its opening for existing franchisees and a maximum of $5,000 for franchisees still in the process of opening unless we agree to pay for or provide a credit to you for the difference). In the case of modifications in the specifications of goods, services and supplies, you will have three months from the effective date of the modification in which to implement the modification.

You must obtain a products liability and public liability insurance policy of no less than $2,000,000 per occurrence and $4,000,000 in the aggregate. You must also obtain an appropriate auto insurance policy to cover your delivery service (non-owner and/or commercial) providing benefits of no less than $1,000,000 for public liability and public damage. You are required to increase these coverages on 180 days' notice by us. You must provide proof of compliance with these insurance requirements before beginning your business and for so long as you own or operate a Pizza Factory restaurant. Pizza Factory must be named as an additional insured. If we or any of our employees or agents are named as a party to any legal action arising out of the operation of your Pizza Factory restaurant, you must defend us in that suit and hold us harmless from any damages.

Your Pizza Factory restaurant must maintain a delivery service on all days it is open for business during the term of your Franchise Agreement. Prior to utilizing any non-employee, third party delivery service, that service must provide you with proof of insurance for commercial delivery with coverage of no less than $1,000,000. You must confirm that insurance maintained by said delivery service is in full force and effect at all times while you are utilizing that service and provide that proof to us whenever demanded. Regardless of whether you use an employee or non-employee third party delivery service, you must confirm that the delivery person is properly licensed and is not exhibiting any behaviors which would indicate that person was under the influence of alcohol or mind-altering prescriptions or non-prescription drugs of any nature.

In addition to the contribution you make to the Pizza Factory Advertising Fund, you must spend no less than 1% of the Net Sales of your Pizza Factory restaurant during any quarter (three month period) on local advertising and promotion of your Pizza Factory restaurant during that quarter.

You must hire and maintain an independent bookkeeper and/or certified public accountant and report to that person or company your complete sales, income, expense and inventory information for each month. That financial information for each month must be reported to your independent bookkeeper or CPA within 15 days of the end of each month. Your independent bookkeeper or CPA must compile and submit such financial information to us no later than the last business day of the following month. (Franchise Agreement, Section 4.17.) The daily and monthly sales, income, expense and inventory information for each month, and the profit and loss statement for each month shall be provided to us in a form prescribed by us. We will provide you with sufficient notice of any changes of the type of information to be reported or the form in which reported. Contact information for your independent bookkeeper or CPA, and any changes of that information, must be disclosed to us and you must authorize that person/company to release information to us regarding the operation of your Pizza Factory restaurant. You must also provide us with all access codes or other information necessary to allow independent access to your POS (Point of Sale) system in order to obtain daily sales and profit and loss reports. If you obtain or receive services or products of any kind whatsoever from third parties, you must authorize those third parties to communicate with us and release to us any information or documents regarding the services and/or products received or provided.

# ITEM 9
# FRANCHISEE'S OBLIGATIONS

**This table lists your principal obligations under the Franchise and other Agreements. It will help you find more detailed information about your obligations in these Agreements and in other items of this Disclosure Document**.

| | **Obligation** | **Section in Agreement** | **Disclosure Document Item** |
|---|---|---|---|
| a. | Site selection and acquisition/ lease | Sections 1.04 and 1.05 of Franchise Agreement; Section 6.1 of Area Development Agreement | Items 5, 7, and 11 |
| b. | Pre-opening purchases/leases | Article 4 of Franchise Agreement and Exhibit 3 | Items 7, 8 and 9 |
| c. | Site development and other pre-opening requirements | Sections 1.04, 1.05, 2.01, 2.02 and 4.01 of Franchise Agreement; Section 6.1 of Area Development Agreement | Items 1, 6, 7 and 11 |
| d. | Initial and ongoing training | Sections 3.08 and 4.02 of Franchise Agreement | Items 11 and 15 |
| e. | Opening | Article 4 of Franchise Agreement and Exhibit 3 | Item 11 |
| f. | Fees | Article 2 of Franchise Agreement; Article 5 of Area Development Agreement | Items 5 and 6 |
| g. | Compliance with standards and policies/Operating Manual | Article 4 of Franchise Agreement | Items 11 and 15 |
| h. | Trademarks and proprietary information | Section 1.04 and Article 5 of Franchise Agreement | Items 13 and 14 |
| i. | Restrictions on products/ services offered | Article 4 of Franchise Agreement | Item 16 |
| j. | Warranty and customer service requirements | None | Not applicable |
| k. | Territorial development and sales quotas | Article 2 of Area Development Agreement | Not applicable |
| l. | Ongoing product/services purchases | Article 4 of Franchise Agreement | Item 8 |
| m. | Maintenance, appearance and remodeling requirements | Article 4 of Franchise Agreement | Item 8 |
| n. | Insurance | Sections 4.06 (c) and 7.01 of Franchise Agreement | Items 7 and 8 |
| o. | Advertising | Sections 3.06 and 4.12 of Franchise Agreement | Items 6, 8 and 11 |

| | Obligation | Section in Agreement | Disclosure Document Item |
|---|---|---|---|
| p. | Indemnification | Sections 5.04 and 7.02 of Franchise Agreement; Sections 11.1 and 11.2 of Area Development Agreement | Item 8 |
| q. | Owner's participation/ management/staffing | Article 4 of Franchise Agreement | Items 11 and 15 |
| r. | Records, reports, and communications | Sections 4.12, 4.17 and 4.19 of Franchise Agreement | Items 6, 8, and 9 |
| s. | Inspections, audits, licenses, and permits | Sections 3.04, 3.07, 4.05, 4.14 and 4.17 of Franchise Agreement | Items 6, 9, and 11 |
| t. | Transfer | Sections 1.04 and 8.01 of Franchise Agreement; Section 7.3 of Area Development Agreement | Item 17 |
| u. | Renewal | Section 1.03 of Franchise Agreement; Sections 4.2, 4.3 and 4.4 of Area Development Agreement | Item 17 |
| v. | Post-termination obligations | Article 9 of Franchise Agreement; Section 4.5 of Area Development Agreement | Item 17 |
| w. | Non-competition covenants | Sections 4.09, 4.16 and Article 5 of Franchise Agreement; Sections 8.1 and 8.2 of Area Development Agreement | Item 17 |
| x. | Dispute resolution | Sections 10.10 and 10.12 of Franchise Agreement; Section 11.15 of Area Development Agreement | Item 17 |
| y. | Security interest in fixtures and equipment | Section 4.19 and Exhibits 1 and 2 of Franchise Agreement | Items 6 and 9 (see below) |

## ITEM 10
## FINANCING

Neither Pizza Factory nor any of its affiliates offer direct or indirect financing. Neither Pizza Factory nor any of its affiliates will guarantee your note, lease, or obligation. Pizza Factory does not receive any consideration for assisting you with arranging financing with a third party lender.

Your obligation to satisfy the foregoing promises, covenants and restrictions is secured by a standard security agreement and a UCC-1 financing statement, sample copies of which are attached to the Franchise Agreement (Exhibit "D") as Exhibits 1 and 2, respectively. By signing the security agreement and authorizing Pizza Factory to file a UCC-1 financing statement, you will give to Pizza Factory a security interest in all of your equipment and fixtures. You must sign the security agreement and financing statement prior to opening your Pizza Factory restaurant for business. Pizza Factory will accept a security interest in the equipment and fixtures which is second in priority only to a security interest you have given a lender for the purpose of establishing your Pizza Factory restaurant or purchasing the equipment or fixtures. Otherwise, the security interest you must give Pizza Factory must be first in priority. (See Section 4.19 of the Franchise Agreement.)

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

**Except as listed below, Pizza Factory is not required to provide you with any assistance.**

A. Before you open your Pizza Factory restaurant, we will:

(1) After you sign the Franchise Agreement and pay the franchise fee, provide you with Site Selection Guidelines. You locate the site at which you will operate your Pizza Factory restaurant and either purchase the site or secure it with a lease. You utilize the assistance of third parties such as commercial real estate brokers, business advisors, accountants, etc. to assist you in finding and securing such a location for use as a Pizza Factory restaurant. The location and, if applicable, the lease must substantially comply with the Site Selection Guidelines which we will provide to you after you sign the Franchise Agreement and pay the franchise fee. We will make a determination if the proposed site and any proposed lease substantially complies with the Site Selection Guidelines. If we determine that the proposed site and lease do substantially comply with the Guidelines, we will advise you of our determination in writing and you may proceed with securing the location by either purchasing it or signing the lease. If we determine, in our sole discretion, that the site selected by you or the proposed lease do not substantially comply with the Site Selection Guidelines, we will also promptly notify you of our decision and the reason. If you are unable to submit a proposed site and, if applicable, a proposed lease at which to locate your Pizza Factory restaurant which substantially complies with the Site Selection Guidelines within one year following the date of your franchise agreement, and either purchase it or secure it with a lease, we may terminate your Franchise Agreement. (Franchise Agreement, Sections 1.04 and 1.05.)

(2) Assist you in selecting your business site within the proposed community in which you desire to do business. Our only involvement in the site selection for your Pizza Factory restaurant or the negotiation of any lease will be to confirm whether or not it substantially complies with the Site Selection Guidelines which will be provided to you after you sign the Franchise Agreement and pay the franchise fee. (Franchise Agreement, Sections 1.04 and 1.05.).

(3) Inspect the premises and review the lease negotiated by you, if any, to confirm that both the location and the lease substantially comply with the Site Selection Guidelines we provide to you. We must confirm that the location and the lease agreement substantially complies with those Site Selection Guidelines before you either purchase the site or secure it by signing a lease. Your restaurant location will be purchased or leased by you from independent third parties. We do not generally own the location leased to our franchisees for operation of a Pizza Factory restaurant. Our confirmation of substantial compliance with the Site Selection Guidelines is strictly limited to the items set forth in

the Site Selection Guidelines and does provide any advice or recommendation pertaining to site selection and lease terms except those expressly stated in the Site Selection Guidelines. (Franchise Agreement, Sections 1.04, 1.05, and 4.01.)

(4) After you secure the location for your Pizza Factory restaurant by either purchasing it or securing it with a lease, we will advise you about obtaining all initially required permits, plans and specifications for the building, equipment, furnishings, decor, layout, menu and menu display, and all signs for or identified with Pizza Factory restaurants. (See Item 8 of this Disclosure Document.) You pay for the cost of preparing any blueprints and plans, engineering and architectural services, obtaining any required permits and for the cost of construction or remodeling. (Franchise Agreement, Section 3.02.)

(5) At an appropriate time prior to opening your Pizza Factory restaurant and no sooner than 120 days prior to the anticipated opening of your Pizza Factory restaurant, we will conduct an initial training program for one or two of your personnel, for no additional charge. One of the persons who attends must be the franchisee or a principal of the franchisee entity. The person who you select as the in-store manager must also attend the initial training program. Additional personnel may attend for an additional fee of $3,500.00 per person. (Franchise Agreement, Sections 2.01 and 3.08.)

(6) During the initial training program, we will provide you with a copy of the Manual. (Franchise Agreement, Section 3.03.)

(7) After you have secured the location for your Pizza Factory restaurant and prior to the opening of your Pizza Factory restaurant, we will assist you in selecting suppliers and purveyors of food ingredients, paper products and other necessary supplies. We will provide you with an extensive list of approved/required products, suppliers, and service providers or detailed specifications for those products and supplies. We do not necessarily provide written specifications for some miscellaneous products, supply items, or services to be purchased. (Franchise Agreement, Section 3.05.) We will also assist you in selecting prices for sale of approved products. We neither deliver nor install any of the items although it may provide some in-store advertising material. (Franchise Agreement, Section 4.07(e).)

(8) After you have secured the location for your Pizza Factory restaurant and prior to the opening of your store, we may provide to you advisory services regarding the operation of your Pizza Factory restaurant. Such includes assisting you to acquire necessary equipment, signs, fixtures, opening inventory and supplies. We may provide and deliver to you in-store advertising material and demonstrate how it is to be utilized. Otherwise, we will provide the names of approved products and approved suppliers but will not necessarily provide written specifications. Except for the advertising material, you will arrange for delivery and installation/storage of those items. (Franchise Agreement, Section 3.04.)

(9) Prior to the opening of your Pizza Factory restaurant, we will provide training and advise in hiring sufficient staff and provide you with advisory services regarding appropriate scheduling and training of that staff. Further, for the first week your Pizza Factory restaurant is open, we will provide a training crew of no less than two personnel. We may determine that you require the further assistance of a training crew beyond the first week which will be mandatory and charged at the same rate as Relocation Fees. (Franchise Agreement, Sections 3.04 and 3.08.)

B. Franchisees typically open their restaurants six to twelve months after they make their initial payment to us and sign the Franchise Agreement. The factors which affect this are your ability to propose a location at which to operate your Pizza Factory restaurant which substantially complies with the Site Selection Guidelines, to obtain a lease or purchase the site, obtain financing or building permits, compliance with zoning and local ordinances, weather conditions, shortages, and delayed installation of equipment, fixtures and signs.

C. During the operation of your Pizza Factory restaurant, we will:

(1) Render advisory services regarding the operation of your Pizza Factory restaurant such as preparation of food products in accordance with the Manual, management of food supplies, development of personnel policy, and training of employees. (Franchise Agreement, Section 3.04.) We will also review your requests for any changes to the menu approved for use at your location, including price changes. However, no changes may be made to the menu, including pricing, unless first approved in writing by us. (Franchise Agreement, Section 4.07(e).)

(2) Continue to assist you in selecting approved suppliers and in promoting your Pizza Factory restaurant through advertising and public relations campaigns. (Franchise Agreement, Sections 3.05 and 3.06.)

(3) Provide you consultation and advice regarding administrative, bookkeeping, accounting, inventory control procedures and operational issues and problems encountered by you. This advice will be provided through our field representatives which may be accomplished either through personal visits, telephone calls, and/or mail. (Franchise Agreement, Section 3.07.)

(4) Provide you a copy of our Manual which contains mandatory and suggested specifications, standards and procedures. This Manual is confidential and remains our property. We will provide you with updates to this Manual which will provide changes regarding specifications for products, personnel, store decor, equipment and other aspects of the operation which you are required to follow, but such will not otherwise alter your status and rights under the Franchise Agreement. Upon termination, you are required to immediately return this Manual and all modifications and amendments. (Franchise Agreement, Section 3.03.)

(5) Periodically hold company-wide and regional conferences to discuss sales techniques, personnel training, bookkeeping, accounting, inventory control, performance standards, advertising programs and merchandising procedures. There is no conference fee, but you must pay all your travel and living expenses. These mandatory conferences are held at a location selected by us. (Franchise Agreement, Section 4.18.)

(6) Provide supplemental or repeat training for you and/or your management when we determine that such training is needed. The supplemental or additional training is mandatory. You will be required to pay the then-current rate being charged for training services and you will be responsible for all travel, food, lodging and other expenses incidental to attendance at such training. (Franchise Agreement, Section 3.08.)

D. Advertising Program

We provide advertising materials and services to you through an advertising fund ("the Fund"). You and most other operators of a Pizza Factory restaurant contribute 3% of your/their monthly Net Sales to the Fund. A Pizza Factory restaurant owned by us must contribute the same amount to the Fund as you or most other franchisees. (Franchise Agreement, Sections 3.06 and 4.12.)

We may periodically provide, make available and/or develop materials or other promotional items which will be available to all franchisees. Promotional materials may include maps, posters, newspaper inserts and layouts, customer and community engagement programs, banners, point of sale items, and other items. These advertising tools/materials will be sourced from our internal advertising department or through an independent advertising agency. A sample of various advertising materials are periodically sent to each franchisee. If you want additional copies you must pay duplication costs. You may develop advertising materials for your own use, at your own cost. You may also develop and utilize advertising through any type of media, including electronic media and the Internet. Pizza Factory must approve the advertising materials and your proposed use of electronic media and the Internet in advance and in writing. (Franchise Agreement, Sections 3.06 and 4.12.)

We occasionally provide for placement of advertising on behalf of the entire Pizza Factory system, including franchisees. However, most placement is done on a local basis, typically by local advertising agencies hired by the Fund. Pizza Factory reserves the right to use advertising fees from the Pizza Factory system to place advertising in regional media (including broadcast, print or other media) in the future. Currently, Pizza Factory uses an outside advertising agency to create and place advertising. (Franchise Agreement, Section 3.06.)

We attempt to utilize advertising funds for placement of advertising in as many local and regional markets which include franchise locations on a proportional basis but is not required to spend any specific amount or any amount at all in the particular area in which your Pizza Factory restaurant will be located. We are not required to spend all advertising funds collected in the fiscal year in which such funds accrue and any amounts not used remain in the Fund and are available for use in future years. (Franchise Agreement, Section 3.06.)

Neither we nor any of our affiliates receives payments from the Fund, except we receive compensation for related services such as the preparation of advertising information and materials and the distribution of such. During 2019, we received an average of $5,532.46 per month as compensation for those services. The Fund is a separate account maintained by Pizza Factory into which all the advertising fees collected from all franchisees are deposited. (Franchise Agreement, Section 3.06.)

Advertising funds are used to promote the products sold by the franchisee and are not used to sell additional franchises. All payments to the Fund must be spent on advertising, promotion and marketing of goods and services provided by Pizza Factory restaurants. You must contribute the amount described in Item 6 under "advertising." An annual audited financial statement of the Fund is available to any franchisee upon request, including an accounting of advertising expenditures for any of those years. (Franchise Agreement, Section 3.06.)

Of the expenditures made during the last fiscal year of the Fund (ending on December 31, 2019), a total of: 75.5% was spent on the production of advertisements and other promotional materials, 8.5% was spent for media placement, and 11.5% was spent for general administrative and advertising agency expenses. We will make available all books and records regarding the advertising fund during reasonable times to you at your request. No periodic reporting of the use of advertising funds is otherwise provided. (Franchise Agreement, Sections 3.06 and 4.12.)

No amounts in the Fund are utilized to solicit new franchise sales.

There are currently no local or regional advertising cooperatives established for Pizza Factory restaurants. If local and/or regional advertising cooperatives are established in the future, you will be required to participate in the cooperative(s) applicable to your restaurant and contribute to those local and/or regional advertising funds in an amount not to exceed an additional 2% of your Net Sales. (See Item Nos. 6, 8 and 9). (Franchise Agreement, Section 3.06.)

You may use your own advertising material or place your own advertising in local media. However, we must approve any of your proposed advertising in writing and in advance of your using it. (Franchise Agreement, Section 3.06.)

Any form of communication or advertising for your Pizza Factory restaurant is required to be maintained separately from any personal forms of communication utilized by you or your principals (e.g. your personal Facebook or other social media account cannot be utilized for communications or advertising purposes for your Pizza Factory restaurant). You will be assigned an email address such as "storename@pizzafactory.com" which will be required to be transferred to a new owner in the event of a sale or transfer of your Pizza Factory restaurant. You are not permitted to utilize the business communication account established for your Pizza Factory restaurant for personal matters. We will not have any obligation to monitor your personal email or social media activity, or such activity on behalf of your employees.

In addition to the contribution made to the Pizza Factory Advertising Fund, you will be required to spend no less than 1% of the Net Sales on local advertising and promotion of your Pizza Factory restaurant during any quarter (any three month period). (Franchise Agreement Section 3.06.)

The Fund is administered by our accounting and marketing personnel under the direction of the director of marketing for Pizza Factory. We do maintain a Franchisee Advertising Advisory Board ("Board") which provides advice and recommendations to our director of marketing. The Board consists of representatives from the various geographical areas in which Pizza Factory franchised restaurants are located, must be a current franchisee in good standing, and have operated a franchise open to the public for no less than six consecutive months. Each member of the Board will serve a term of no less than 12 months and is not compensated for his/her service.

Required Electronic Cash Registers/Computers

Your Pizza Factory restaurant must have a Point of Sale computer system which is approved by us. The primary functions of this computer system are: cash register, order tracking, coupon tracking, inventory control and daily sales. The cost of purchasing the system is currently approximately $7,000 to $16,000 or leasing the system costs approximately $600 to $1,200 per month. (Franchise Agreement, Section 4.06.)

Neither we nor any of our affiliates nor any particular third party is under any obligation to provide ongoing maintenance, repairs, upgrades or updates to this system except we may require you to update the system for the purpose of reflecting changes in product offerings, sales information, bookkeeping and inventory administration. You must obtain and maintain continuous support services for the Point of Sale computer system then approved by us to insure that the system is continuously updated and remains in good working order. It is estimated that the annual cost of any required maintenance, updating, upgrading or support contracts for this system is between $1,495 and $2,000. (Franchise Agreement, Sections 4.01 and 4.02.) Computer hardware must be updated at the request of Pizza Factory. However, the cost of such refurbishment is limited.

You are required to provide Pizza Factory with independent access to information stored in your POS system and provide Pizza Factory any access codes or other information necessary to allow Pizza Factory to have independent access to that system at any time without limitation. You are also required to provide the information generated from that system to Pizza Factory on a monthly basis including daily sales information. (Franchise Agreement, Section 4.17.)

<u>OPERATIONS BRAND STANDARDS MANUAL - TABLE OF CONTENTS</u>

A copy of the table of contents of our Manual appears as Exhibit "G" attached to this Disclosure Document. Currently the Manual has a total of 141 pages

**PIZZA FACTORY TRAINING PROGRAM**

| Subject | Hours of Classroom Training | Hours of On-The-Job Training | Location |
|---|---|---|---|
| Opening/Closing Procedures | 0 | 10 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Telephone/Counter Procedures | 0 | 7 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Customer Service | 0 | 10 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| POS/Menu Product Codes | 0 | 10 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Food Preparation | 0 | 40 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Making and Spinning a Pizza | 0 | 30 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Sandwich Preparation | 0 | 10 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Pizza Table/Sandwich Table Cleaning and Rotation of Product | 0 | 10 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Pizza Out/Presentation | 0 | 10 | Placerville, California; Oakhurst, California; Red Rock, Nevada |

| Subject | Hours of Classroom Training | Hours of On-The-Job Training | Location |
|---|---|---|---|
| Advertising/Digital Marketing | 8 | 0 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Accounting/Bookkeeping | 10 | 0 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Management Training | 0 | 10 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Training Kitchen | 0 | 40 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Review of Operations Brand Standards Manual | 0 | 5 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| Delivery/On-line Ordering | 5 | 10 | Placerville, California; Oakhurst, California; Red Rock, Nevada |
| **TOTAL** | **23** | **202** | |

At an appropriate time no earlier than 120 days prior to your opening of your Pizza Factory restaurant, we will provide you and any other additional person(s) with a training program as follows:

(a) An initial training program which will consist of approximately 225 hours of training over a 60 day period. Training classes are held periodically as new stores open. Currently, the training takes place at the Pizza Factory corporate office in Oakhurst, California as well as at Pizza Factory restaurants in Placerville, California; and/or Red Rock, Nevada. Training may also be held at the location of a Pizza Factory vendor, Saladino's, in Fresno, California. (Franchise Agreement, Section 3.08.)

(b) Classroom training will consist of approximately 23 hours. On-the-job training will consist of approximately 202 hours in which you will be observing and participating in the day-to-day operation of a Pizza Factory restaurant. Both classroom and on-the-job training will be under the guidance and assistance of instructors who have no less than two years of direct involvement in the operation of a Pizza Factory restaurant. Any franchisee required to complete any portion of the training at the Pizza Factory office in Oakhurst, California will be assigned to a nearby training unit at a Pizza Factory restaurant located in Placerville, California; and/or Red Rock, Nevada. (Franchise Agreement, Section 3.08.)

(c) The officer in charge of scheduling and coordinating training is Bryan Ross, an employee of Pizza Factory with over nine years of management experience with Pizza Factory and over ten years of training experience. Actual training is conducted by experienced training personnel at each location as follows. In Fresno, California, training will be conducted by Bryan Ross whose experience is described above. In Placerville, California, training will be conducted by David and Terri Thomas whose experience includes owning a Pizza Factory franchise since 2014. In Red Rock, Nevada, training will be conducted by James and Stacy Huffmon who have been Pizza Factory Franchisees with two locations since September 2013, in the Northern Nevada Region. Training material includes the Manual, Training Schedule, and Employee Manual for store employees.

(d) The training classes are held as necessary to accommodate training of new franchisee personnel and providing additional training for others. A copy of our Training Checklist is attached to this disclosure document as Exhibit A. All training, including any additional training being required, must be completed prior to you opening your Pizza Factory restaurant for business.

(e) The initial franchise fee includes an initial training program for up to two persons. (See Items 5 and 7 of this Disclosure Document.) Although up to two persons may attend the initial training program at the same time, there is no discount or partial refund if only one person attends. There is a further charge of $3,500 for each additional person who attends the initial training program at the same time. You must pay travel and living expenses for each person you send to the training program. We also provide a full training program for those persons who might attend during the term of the franchise agreement and after the new franchisee initial training is completed. The charge to attend the full training program after the new franchisee initial training program is completed is currently $5,000 for up to two persons to attend. (Franchise Agreement, Section 3.08 (d).)

(f) Either the franchisee or one of the owners or primary principals of the franchisee (if the franchisee is an entity) must attend and complete the initial training program to our satisfaction. You may elect to have additional training or additional training may be required if determined to be necessary by us. There is an additional charge of $500 per day for the first two persons and $250 per day for each additional person attending the additional training, the length and location of which will be determined by us but will usually be at an existing and operating Pizza Factory restaurant in California.

(g) At any time prior to the opening of your Pizza Factory restaurant or at any time during the term of your Franchise Agreement, we may determine that you require additional training which will be mandatory. The cost of the training will be at the amount then being charged by the franchisor for such training (currently $500 per day for the first two persons and $250 per day for each additional person) and you will be responsible for all costs of travel, lodging and meals. (Franchise Agreement, Section 3.08(c).) Optional training programs will be available to you either prior to opening your Pizza Factory restaurant or at any time during the franchise period. The cost for such will be the cost charged at that time for training (currently $500 per day for the first two persons and $250 per day for each additional person) and will take place at an existing and operating Pizza Factory restaurant located in California or at such other location as may be designated by us including Saladino's kitchen in Fresno, California. You must pay all costs of travel, lodging and meals during the training period. (Franchise Agreement, Section 3.08(c)(e)).

(h) Additional or refresher training is occasionally offered at company-wide and/or regional conferences for no additional cost beyond the cost of attending the conference.

## ITEM 12
## TERRITORY

Franchise Agreement

The location of your Pizza Factory restaurant will be specified in the franchise agreement. However, if you and we have not agreed upon the location of your Pizza Factory restaurant when you sign your franchise agreement, you must secure a location for your Pizza Factory restaurant at a site accepted by us. OUR ACCEPTANCE OF A PROPOSED LOCATION IS NOT A GUARANTEE THAT YOUR PIZZA FACTORY RESTAURANT WILL BE SUCCESSFUL. You may apply for the right to open additional Pizza Factory restaurants pursuant to separate franchise agreements, but we have no obligation to allow you to open additional Pizza Factory restaurants. The franchise agreement grants you no options, rights of first refusal or similar rights to acquire additional franchises.

We will not operate stores or grant franchises to operate a Pizza Factory restaurant from a physical premises the location of which is within a three (3) mile radius of your location; and you need not meet any other condition or contingency in order to enjoy that benefit during the term of your Franchise Agreement. However, this does not prevent us or other franchisees or affiliates of ours from delivering in or soliciting customers within that area whether under the same or different trademarks that we will grant you to use. Those solicitation efforts by us or other franchisees or affiliates can be by Internet, telemarketing, local publications (telephone yellow pages) or other direct marketing advertising efforts.

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

Currently, we do not control or operate any other non-Pizza Factory business operation which would compete against your Pizza Factory restaurant, except for one company-owned restaurant in Show Low, Arizona. Further, you do not receive any other rights to acquire additional franchises within the three (3) mile radius of the location of your Pizza Factory restaurant and you are not entitled to any compensation from us, any of our affiliates or other franchisees who solicit or accept orders from customers or deliver to customers within five (5) miles of your Pizza Factory restaurant. However, you are not restricted from soliciting or accepting orders from customers or delivering to customers outside of the three (3) mile radius from your Pizza Factory restaurant and you and any other Pizza Factory franchisee may use other channels of distribution such as Internet, catalog sales, telemarketing or other direct marketing efforts which reach outside of your/their assigned area.

You may not relocate your Pizza Factory restaurant without our prior written approval. We will determine whether to approve any application for relocation of your Pizza Factory restaurant based upon several factors which may include the following: full or partial destruction of the building in which the franchise operates, extended periods of road or other construction which materially interferes with the franchise operation, loss of the property by eminent domain or loss of possession which is not your fault, change in character of the location sufficiently detrimental to your Pizza Factory restaurant to warrant relocation or that nearby relocation may greatly enhance the business potential of your Pizza Factory restaurant. Any such relocation must be at your sole expense and must not be within a three (3) mile radius of any other Pizza Factory restaurant and in substantial compliance with the Site Selection Guidelines then being used. We will provide you with mandatory, although appropriate, pre-opening advisory services in order to ensure substantial compliance with all requirements and specifications for the opening of a Pizza Factory restaurant in effect and the Site Selection Guidelines then being used at the time of relocation. You will be charged for field services at the same rate then being charged for additional training (currently $150 per hour or $500 per day) plus the rate then being charged for administrative services ($125 per hour for non-field work) plus all travel and related expenses incurred by Pizza Factory in order to provide those services.

Currently, neither we, nor any of our affiliates, operates or offers franchises, nor has plans to operate or offer franchises or other types of business under a different trademark which either sells or will sell goods or services similar to those which you will offer at your Pizza Factory restaurant.

Area Development Agreement

Under the Area Development Agreement, we grant you the right to develop and operate a specified number of Pizza Factory restaurants at locations in a specified Development Area, subject to our approval. The Development Area may be one or more cities, counties, states or some other defined area. During the term of the Area Development Agreement, we will not operate or grant a license or franchise to any other person to operate a "Traditional Pizza Factory restaurant" in your Development Area. A Traditional Pizza Factory restaurant is a full-service or express restaurant located at any location other than at a Non-Traditional Venue (defined below). We reserve the right to operate or license or franchise any other person to operate a Pizza Factory restaurant (a) at any location outside your defined Development Area, including immediately adjacent to the Development Area, and (b) at any Non-Traditional Venue, even if located within your Development Area. We may (a) own or operate, and franchise or license others to own or operate, restaurants operating under names other than Pizza Factory at any location, and of any type or category at all, even if located within your Development Area, and (b) produce, license, distribute and market Pizza Factory brand named products, and products bearing other marks, including food and beverage products, books, clothing, souvenirs and novelty items, at or through any location or outlet, including grocery stores and convenience stores (including if located within the Development Area), and through any distribution channel, at wholesale or retail, including by means of mail order catalogs, direct mail advertising, internet marketing and other distribution methods. Until the termination or expiration of your Area Development Agreement, you retain your right of exclusivity as long as you comply with your development schedule and other obligations under the Area Development Agreement. "Non-Traditional Venue" is defined as a location within another primary business or in conjunction with institutional and other business settings, including toll roads, hotels and motels, ships, ports, piers, casinos, amusement parks, arenas, stadiums, airports, theaters, big-box retailers, building supply stores, warehouse club stores, colleges and universities, schools, hospitals, military and other governmental facilities, office or in-plant food service facilities, shopping mall food courts operated by a master concessionaire, grocery stores, supermarkets and convenience stores and any site for which the lessor, owner or operator thereof must have indicated its intent to prefer or limit the operation of its food service facilities to a master concessionaire or contract food service provider.

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

If you fail to meet any of your obligations under the Area Development Agreement, including the development obligations, or commit a material breach of any Franchise Agreement that you have signed, or a material breach of any other agreement with us, we may terminate your Area Development Agreement, but the termination of your Area Development Agreement will not terminate any rights granted under the Franchise Agreements then in effect between you and us, absent a breach of the Franchise Agreement itself. After the expiration of the term of your Area Development Agreement, we may own, operate, or franchise or license others to operate additional restaurants anywhere, without restriction, including in your Development Area, subject to the rights granted to you in the Exclusive Area established under any then existing Franchise Agreement, provided that, if you determine that further development of your Development Area is desirable after the term of your agreement, you must notify us in writing, including the number of proposed Pizza Factory restaurants and the proposed development schedule, within 180 days before the expiration of your Area Development Agreement. If we determine that your proposed additional development is unacceptable in any respect, we will negotiate with you in good faith for 60 days to try to agree upon a mutually acceptable development schedule. If we determine that your proposed additional development is acceptable or if you and we reach an agreement on an alternative additional development obligation, you will have the right to enter into a new Area Development Agreement and undertake additional development of your Development Area. If you do not exercise your right to enter into a new area development agreement, we may own, operate, franchise or license other(s) to operate additional Pizza Factory restaurants in your Development Area subject only to the territorial rights reserved to you in the individual Franchise Agreements.

## ITEM 13
## TRADEMARKS

You will receive the right to operate a restaurant exclusively under the name "Pizza Factory" at your assigned location. You will also exclusively use our other current or future trademarks in the operation of your Pizza Factory restaurant including the advertising and marketing activities for your restaurant. By "trademark" we mean trade names, trademarks, and service marks used to identify your restaurant and currently registered to us. We have registered the following trademarks on the Principal Register of the United States Patent and Trademark Office ("USPTO") and all required affidavits have been filed for these marks:

| MARK | REGISTRATION NO. | REGISTRATION DATE |
|---|---|---|
| PIZZA FACTORY | 1523985 | 2/7/1989<br><br>Renewed: 2/7/2009 |
| | 1497228 | 7/19/1989<br><br>Renewed: 7/19/2008 |

| MARK | REGISTRATION NO. | REGISTRATION DATE |
|---|---|---|
| WE TOSS'EM - THEY'RE AWESOME PIZZA FACTORY | 1514938 | 11/29/88<br><br>Renewed: 11/29/2008 |
| WE TOSS'EM – THEY'RE AWESOME | 1529080 | 3/7/1989<br><br>Renewed: 3/7/2009 |
| THINK PIZZA | 2584901 | 6/25/2002<br><br>Renewed: 6/25/2012 |
| IS IT THE SAUCE OR IS IT THE DOUGH? | 3137719 | 9/5/2006<br><br>Renewed: 9/5/2016 |
| | 4394266 | 9/3/2013 |
| | 4637402 | 11/14/2014 |

On December 9, 1985, we successfully registered the words "Pizza Factory" and the designation of the Pizza Tosser as trademarks of Pizza Factory with the California Secretary of State, Registration No. 79472. On December 9, 1985, we also successfully registered the trade name/slogan of "We Toss 'Em - They're Awesome" with the California Secretary of State, Registration No. 25235. On September 17, 2015, we successfully registered the designation of the Pizza Factory Circle logo with the California Secretary of State, Registration Nos. 120279 and 120280. The registrations for each mark registered with the California Secretary of State have been renewed as required, remain in full force and effect, and all required affidavits and renewal applications have been filed.

You must follow our rules when you use these marks. You are prohibited from using one of our registered names or marks with or without modifying words, designs, or symbols as part of the name of any corporation, limited liability company, or other limited liability entity without our express written consent. In the operation of a Pizza Factory restaurant, you may only use those names, marks, designs, or slogans as expressly authorized by us and only use authorized names and marks in strict compliance with our rules. You may not use our registered name in connection with the sale of an unauthorized product or service or in a manner not authorized in writing by us. You are required to notify us promptly upon learning of any infringing uses or claims by others of a trademark or service mark identical to or confusingly similar to any of our trademarks or service marks relevant to their use in this state. We will take appropriate action to protect the marks from infringement by others upon being notified by you of an infringing use or claim, but have the right to control how such matter is resolved (e.g. informal settlement, administrative, or court proceeding). Those resolutions may include informal agreements, formal settlement agreements, or judgments which may impact whether and how franchisees are allowed to continue use of the mark. If the resolution requires modification of our marks or use of the marks, you will be required to comply accordingly.

There are no presently effective determinations by the United States Patent and Trademark Office, the trademark administrator of California, or any court, and there is no pending interference, opposition or cancellation proceeding or any pending material litigation involving our trademarks, trade names or service marks. There are no agreements which limit our right to use, or license the use, of our trademarks, service marks or trade names.

We are obligated to indemnify and protect you against claims of infringement or unfair competition with respect to your use of our trademarks or service marks. We have the option of defending you in such litigation but, if we do not, we will reimburse you for any reasonable costs you incur to defend against any such claim. If we choose to defend you in such litigation, we have the right to control the proceeding and you will not be reimbursed any amount for other legal fees and or other litigation costs incurred at your own choosing. However, we will neither defend, indemnify nor hold you harmless from any use of a trademark if your use violates your obligations regarding the use of these trademarks (e.g.; continued use by you of a discontinued trademark or unauthorized use of a mark). In the event of such a violation, you are required to defend, indemnify and hold us harmless from any such claim or litigation.

You must modify or discontinue the use of any trademark or service mark if we modify or discontinue such mark or are required to do so by agreement, administrative proceeding or court judgment. If this happens because another person or business claims our use infringes on their mark or trade name or such modification or discontinuation of use is the result of a legal action, we will reimburse you for your out-of-pocket costs of compliance only (for example, the cost to change signs). You must not directly or indirectly contest our ownership of Pizza Factory's trademarks, service marks, trade secrets, or business techniques and Pizza Factory's right to change, modify or discontinue the use of our trademarks or service marks in the operation of your Pizza Factory restaurant.

We do not know of any infringing uses in this state that could materially affect your use of our trademarks.

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

There are no patents or pending patent applications material to the franchise.

We will loan you, or make available to you, one copy of our Manual for confidential use in your Pizza Factory restaurant. Although neither we nor our affiliates have filed an application for a copyright registration for the Manual, we claim common law copyrights in the Manual. We also claim common law copyrights in other materials. Federal registration of copyrights is not required to ensure the protection of federal copyright law. The typical duration of a copyright is the life of the author plus 70 years.

Our right to license this copyrighted Manual is not materially limited by any agreement or known infringing use. Item 11 describes limitations on the use of this Manual by you and your employees. You must also promptly tell us when you learn about unauthorized use of proprietary information contained in the Manual. We are not obligated to take any action but will respond to this information if we think appropriate. If we decide to add, modify or discontinue the use of an item or process covered by a copyright or patent, you must also do so.

We are obligated to indemnify and protect you against claims based on your authorized use of Pizza Factory's copyrighted material and proprietary processes and procedures. We have the option of defending you in such litigation. If we choose to defend you in any such legal proceeding, we will have the right to control that proceeding including the right to settle any such proceeding on terms and conditions which we determine to be appropriate in our own discretion. If we do defend you, you will not be reimbursed for legal fees and other litigation costs you may incur at your own choosing. Our sole obligation is to reimburse you for the tangible cost of complying with this obligation if such is the result of another person or business claiming that we are violating their patent or copyright. However, we are not obligated to defend you against any claim regarding your use of any proprietary item or process which is part of the Pizza Factory program unless we choose to do so. If we do not defend you, we will reimburse you for the reasonable costs incurred in litigation about any proprietary item or process which your proper use of the Pizza Factory program allegedly violates.

We know of no copyright infringement that could materially affect you with respect to use of the Manual. Currently, we do not claim a proprietary right in any other confidential information or trade secret other than the information contained in the Manual or written policies.

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

You must designate a person as your on-premises manager who must be at your Pizza Factory restaurant no less than an average of 40 hours per week. We do not require that you personally supervise your Pizza Factory restaurant. If the franchisee is an individual, it is recommended that the franchisee be designated the on-premises manager. If the franchisee is a business entity (corporation, limited liability company, partnership, etc.), it is recommended that one or more of the principals (e.g., shareholder, member, partner, etc.) of the franchisee entity be designated the on-premises manager. However, you are permitted to designate a non-owner/non-principal on-premises manager as the primary supervisor for your Pizza Factory restaurant. The on-premises manager must operate your business so that the business complies with all our standards. Regardless of whether the designated on-premises manager is the franchisee, or principal of the franchisee, or has no ownership interest, he/she must satisfactorily complete the full initial training program (see Item 11 (G)) prior to assuming those duties. It will be your responsibility to ensure that your Pizza Factory restaurant operates in compliance with the required operational standards and procedures. However, we may communicate directly with any owner, principal, or on-premises manager regarding matters related to the operational and procedural standards; although we will not supervise or direct your employees.

The non-owner/non-principal on-premises manager cannot have an ownership interest in or business relationship with any of our business competitors. Prior to assuming his/her duties, the on-premises manager must sign a written agreement to maintain confidentiality of the trade secrets described in Item 14, the contents of the Manual and any communications between us and your Pizza Factory restaurant and to conform with the covenants not to compete described in Item 17. A copy of the agreement is attached as Exhibit 7 to the Franchise Agreement (Exhibit D). If the franchisee is a business entity (corporation, limited liability, etc.), the principal owner(s) must also sign the same agreement. A copy of all such signed agreements must be provided to us prior to opening your Pizza Factory restaurant or prior to the person becoming the on-premises manager or a principal of your Pizza Factory restaurant.

If your Pizza Factory restaurant will be owned by a corporation, limited liability company or limited partnership, or any other type of business organization which provides for limited liability of its principal owners, all the principal owners of that corporation, limited liability company, limited partnership or other limited liability type company must each execute a personal guarantee of full performance of all obligations required of that business required by the Franchise Agreement and a non-competition agreement. The personal guarantee form which must be signed is attached to the Franchise Agreement (Exhibit D) following the signature page.

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

You must offer and sell only those foods, ingredients, beverages (other than beer), and any other items of any nature whatsoever which have been designated and approved by us, and you may not offer and/or sell any other items or provide any other service.  You must offer all goods and services that we designate as mandatory for all franchisees which currently comprise those items shown on the sample menu which is attached as "Exhibit F."  We have the right to add additional authorized products and services that you must offer and delete items which you must discontinue. There are no limits on our right to do so.

With our assistance and approval, you will establish menu prices for each item prior to opening your business. Pricing may vary from location to location depending upon many factors including the cost of ingredients, supplies, labor, rent, competition, etc. You may only make changes to the menu approved for use at your Pizza Factory restaurant, including prices, with our prior written consent.

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

## THE FRANCHISE RELATIONSHIP

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

| | Provision | Section in Franchise or other Agreement | Summary |
|---|---|---|---|
| a. | Length of franchise term | Section 1.02 | 10 years. |
| b. | Renewal or extension of the term | Section 1.03 | If you have not received a notice of non-renewal at least 180 days before the term expires based on good cause for termination, and if you can renew your lease beyond the end of the initial franchise term, you can renew your Franchise Agreement one time for an additional 10 years on the terms then being offered to new franchisees. |
| c. | Requirements for franchisee to renew or extend | Section 1.03 | We use the term "renewal" to refer to extending our franchise relationship at the end of your initial term (and any other renewal or extension of the initial term) and you must, at our option, sign a new franchise agreement that may have materially different terms and conditions than your original contract.<br>Unless good cause exists for termination, you must pay the renewal fee, renew your lease and sign a successor franchise agreement. |
| d. | Termination by franchisee | None | Not Applicable, subject to state law. |
| e. | Termination by franchisor without cause | None | Not Applicable, subject to state law. |
| f. | Termination by franchisor with cause | Sections 9.01 and 9.02 | We can terminate immediately if default is not curable or if you fail to cure a "curable" default within 60 days of written notice. |
| g. | "Cause" defined - curable defaults | Section 9.02(a) | You have 60 days to cure: non-payment of fees, sanitation problems, non-submission of reports and other curable defaults. |

| | Provision | Section in Franchise or other Agreement | Summary |
|---|---|---|---|
| h. | "Cause" defined - non-curable defaults | Section 9.01 | Appointment of receiver, assignment for benefit of creditors, repeated failure to pay fees and other debts, termination of lease. Conviction of a felony, abandonment, trademark misuse, unapproved transfer, breach of confidentiality, failure to timely assign after death of principal and/or more than two defaults within any twelve month period; see Section 9.01 of Franchise Agreement for complete list. |
| i. | Franchisee's obligations on termination/non-renewal | Section 9.04 | Unless we choose to acquire your Pizza Factory restaurant, then your obligations include complete de-identification and payment of amounts due (also see n, o, and r below.) |
| j. | Assignment of contract by franchisor | Section 8.02 | No restriction of our right to assign. |
| k. | "Transfer" by franchisee - defined | Section 8.01 | Includes transfer of contract or assets or ownership change, or bringing in new shareholder, partner, etc. Also includes converting a sole proprietorship into a partnership/corporation/ limited liability company. |
| l. | Franchisor approval of transfer by franchisee | Section 8.01 | We have the right to approve all transfers but will not unreasonably withhold approval. |
| m. | Conditions for franchisor approval of transfer | Section 8.01 | New franchisee qualifies, then current transfer fee paid, purchase agreement approved, new franchisee training completed, release signed by you, all sales and escrow documents disclosed and current agreement signed by new franchisee, signing of personal guarantee by you and/or new franchisee if applicable and an update of decor/equipment (including point of sale systems) to |

| | Provision | Section in Franchise or other Agreement | Summary |
|---|---|---|---|
| | | | current requirements. (also see r, below.)<br>If the Franchise Agreement was signed pursuant to an Area Development Agreement, all Franchise Agreements must be assigned to the same assignee. |
| n. | Franchisor's right of first refusal to acquire franchisee's business | Sections 8.01 and 9.03 | Upon termination of the franchise, at end of term, upon sale or prior to transfer including after death. |
| o. | Franchisor's option to purchase franchisee's business | Sections 8.01 and 9.03 | See n, above. Upon termination of the franchise or at the end of term. |
| p. | Death or disability of franchisee | Sections 8.01, 9.01, and 9.03 | Your interest must be assigned to an approved buyer within 12 months if we do not exercise our right of first refusal or option to purchase. |
| q. | Non-competition covenants during the term of the franchise | Section 4.16 | Subject to state law, no involvement by franchisee or principals in competing business. No involvement by non-principal, employed managers in competing business during term of employment or for 18 months, or within five miles of any Pizza Factory restaurant after employment ends. |
| r. | Non-competition covenants after the franchise is terminated or expires or upon sale or assignment of franchise | Sections 4.16 and 9.04 | Subject to state law, no competing business for five years within five miles of any Pizza Factory restaurant except for the restaurant then being operated if within five miles of a Pizza Factory restaurant. |
| s. | Modification of the agreement | Sections 10.09, 4.07, and 4.08 | No modifications generally but specifications, product, equipment and interior/exterior decor package may be changed, subject to certain limitations. |
| t. | Integration/merger clause | Section 10.07 | Only the terms of the Franchise Agreements and General Security |

| | Provision | Section in Franchise or other Agreement | Summary |
|---|---|---|---|
| | | | Agreement are binding (subject to state law). Any representation or promises made outside the disclosure document, the Franchise Agreement, and the General Security Agreement may not be enforceable. |
| u. | Dispute resolution by arbitration or mediation | None | Not Applicable. |
| v. | Choice of forum | Section 10.10 | Subject to state law, litigation must be in Madera County, California. |
| w. | Choice of law | Section 10.02 | Subject to state law, California law applies. |

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

| Provision | Section in Area Development Agreement | Summary |
|---|---|---|
| a. Term of the license | § 4.1 | Typically 5 years or until you sign a Franchise Agreement for your last Pizza Factory restaurant necessary to satisfy your development obligation, whichever is earlier. |
| b. Renewal or extension of the term | §§ 2.4 and 4.2 | You do not have the right to renew your Area Development Agreement. However, if we determine that further development of your Development Area is desirable, if you are in good standing and you are not in default under your Area Development Agreement, we will offer you the opportunity to develop additional Pizza Factory restaurants. Unless we consent, you may not open more than the total number of Pizza Factory restaurants comprising your development obligation. |

| Provision | Section in Area Development Agreement | Summary |
|---|---|---|
| c. Requirements for you to renew or extend | §§ 4.3 and 4.4 | We use the term "renewal" to refer to extending our franchise relationship at the end of your initial term (and any other renewal or extension of the initial term) and you must, at our option, sign a new area development agreement that may have materially different terms and conditions than your original contract.<br><br>You must sign a new area development agreement on our then current form, which will contain your additional development obligation. You and your affiliates who have a currently existing franchise agreement or area development agreement with us must sign a general release. |
| d. Termination by you | None | Not Applicable, subject to state law. |
| e. Termination by Us without cause | None | Not Applicable, subject to state law. |
| f. Termination by Us with cause | § 9.1 | We can terminate if you or any of your affiliates materially default under the Area Development Agreement, an individual Franchise Agreement, or any other agreement with us or any of our affiliates. |
| g. "Cause" defined - defaults which can be cured | § 9.1 | You have 5 days following written notice of the default, provided that in the case of a breach or default in the performance of your obligations under any franchise agreement or other agreement, the notice and cure provisions of such agreement will control. |
| h. "Cause" defined - defaults which cannot be cured | § 9.1 | Non curable defaults include: unapproved transfers, failure to meet development obligations, any breach of confidentiality or unfair competition provisions. |
| i. Your obligations on termination/non-renewal | § 4.5 | You will have no further right to develop or operate additional Pizza Factory restaurants which are not, at the time of termination, the subject of a then existing Franchise Agreement between you and us. You may continue to own and operate all Pizza Factory restaurants pursuant to then-existing Franchise Agreements. |
| j. Assignment of contract by Us | § 7.1 | No restriction on our right to assign. |
| k. "Transfer" by you - definition | § 7.3 | Includes transfer of the agreement or change in ownership of a franchisee which is an entity. |

| Provision | Section in Area Development Agreement | Summary |
|---|---|---|
| l. Our approval of transfer by you | § 7.3 | Transfers require our express written consent, which consent may be withheld for any reason at all in our sole judgment. |
| m. Conditions for our approval of transfer | §§ 7.2 and 7.3 | Except as described below, you may not transfer your Area Development Agreement or any Franchise Agreement signed pursuant to the Area Development Agreement except with our written consent and a simultaneous assignment of the Area Development Agreement and all Franchise Agreements signed pursuant to the Area Development Agreement to the same assignee.<br>With our written consent, you may transfer a Franchise Agreement to an entity of which you directly own 100% interest for convenience of ownership. If the new franchisee is a business entity, all holders of a 10% or greater interest in the new franchisee must sign a guaranty. You must reimburse us for all costs and expenses that we incur in connection with such a transfer, including attorneys' fees.<br>At our election, the assignee must sign our then current form of franchise agreement for each Pizza Factory restaurant then developed or under development.<br>Before shares of a franchisee which is a business entity may be offered by private offering, you must provide us with copies of all offering materials; indemnify us, our Affiliates, officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees of each in connection with the offering; and pay us a non-refundable $5,000 fee to reimburse us for our costs and expenses associated with reviewing the proposed offering. |
| n. Our right of first refusal to acquire your business | § 7.3 | We can match any offer for your business. |
| o. Our option to purchase your business | N/A | Not Applicable. |
| p. Your death or disability | §§ 7.3 and 9.1 | Your heirs have 60 days after your death or legal incapacity to assign the area development agreement to a person acceptable to us. See also "m" above. |

| Provision | Section in Area Development Agreement | Summary |
|---|---|---|
| q. Non-competition covenants during the term of the franchise | § 8.1 | Subject to state law, unless we otherwise consent, you can not engage in "Competitive Activities" defined as (i) owning, operating, lending to, advising, being employed by, or having any financial interest in any restaurant 10% or more of whose gross receipts is derived from the sale of pizza or pasta, other than a Pizza Factory restaurant operated pursuant to a validly subsisting franchise agreement with us, or (ii) any business that specializes in developing, owning, operating or franchising restaurants 10% or more of whose gross receipts is derived from the sale of pizza or pasta, or (iii) any business engaged in the preparation, production or sale, at wholesale, of any pizza or pasta food product. "Competitive Activities" does not include the direct or indirect ownership solely as an investment, of securities of any entity which are traded on any national securities exchange if applicable owner thereof (i) is not a controlling person of, or a member of a group which controls, the entity and (ii) does not, directly or indirectly, own 5% or more of any class of securities of the entity. |
| r. Non-competition covenants after the franchise is terminated or expires | § 8.2 | Subject to state law, except with our express written consent, no involvement in any Competitive Activities, as defined above, for 24 months or within 5 miles of any then-existing Pizza Factory restaurant. |
| s. Modification of the agreement | § 11.9 | The agreement may be modified only by written agreement between the parties. |
| t. Integration/merger clause | § 11.9 | Only the terms of the area development agreement are binding (subject to state law). Any representations or promises outside of the disclosure document and area development agreement may not be enforceable. |
| u. Dispute resolution by arbitration or mediation | § 11.17 | Subject to state law, you and we agree to attempt to resolve any dispute pursuant to binding arbitration by Judicial Arbitration and Mediation Service, Inc. or its successor held in the county in which our headquarters is located. |

| Provision | Section in Area Development Agreement | Summary |
|---|---|---|
| v. Choice of forum | § 11.15 | Subject to state law, you and we agree to attempt to resolve any dispute pursuant to binding arbitration by Judicial Arbitration and Mediation Service, Inc. or its successor held in the county in which our headquarters is located. |
| w. Choice of law | § 11.8 | Subject to state law, California law applies, except for the provisions respecting non-competition, which are governed by the law of the state in which you will operate. |

## ITEM 18
## PUBLIC FIGURES

We do not use any public figures to promote this franchise.

## ITEM 19
## FINANCIAL PERFORMANCE REPRESENTATIONS

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

This financial performance representation discloses historical financial information for the 94 franchisee owned and 1 company owned restaurants that were open and in operation for 12 full calendar months as of the last day of the applicable fiscal period and were at least 1,500 square feet in size. The historical sales, cost of goods, labor and rent information was for calendar year 2019. The Pizza Factory restaurants excluded from this Item 19 are (a) 5 restaurants under 1,500 square feet operating during this period, and (b) 7 restaurants that were in operation less than 12 full months (including those that closed during the year or opened during the year). In addition, this financial performance representation excludes 1 franchised restaurant as result of its failure to submit required financial data. All of the restaurants offer delivery services, except as noted below. The table below also reflects the number of restaurants that were open for more than 10 years in each segment. In Item 19, we use the term "Gross Sales," which means the total sales from the operation of your restaurant including all food and beverage items, arcade and merchandise sales, catering, service, and delivery charges, before any reductions for discounts, coupons or refunds. "Gross Sales" does not include sales tax or use tax.

| Franchisee Owned Restaurants | | | | |
|---|---|---|---|---|
| | **All Restaurants** | **High** | **Med** | **Low** |
| Gross Sales Range | $82,399 - $2,086,194 | $768,909 - $2,086,194 | $534,903 - $770,054 | $82,399 - $612,391 |
| Number of Restaurants Greater than 1,500 sq ft. | 94 | 31 | 31 | 32 |
| % of Restaurants Greater Than 1,500 sq. ft. | 100% | 33% | 33% | 34% |
| Restaurants open longer than 10 years | 79 (84%) | 27 (29%) | 26 (28%) | 26 (28%) |
| Average Gross Sales | $718,250 | $1,105,201 | $655,036 | $404,631 |
| Median Gross Sales | $656,276 | $1,021,416 | $661,691 | $424,134 |
| Number / Percent Above Average | 37 (39%) | 11 (35%) | 16 (52%) | 19 (59%) |
| Average Cost of Goods Sold (as a percentage of Gross Sales) | 25.3% | 25.1% | 25.0% | 26.4% |
| Median Cost of Goods Sold (based on percentage of Gross Sales) | 25.4% | 25.4% | 24.9% | 26.0% |
| Average Cost of Labor (as a percentage of Gross Sales) | 25.6% | 24.8% | 26.3% | 26.8% |
| Median Cost of Labor (based on percentage of Gross Sales) | 21.2% | 29.0% | 21.1% | 13.6% |
| Average Rent Cost (as a percentage of Gross Sales) | 5.9% | 5.6% | 5.1% | 8.1% |
| Median Rent Cost (based on percentage of Gross Sales) | 6.2% | 5.6% | 4.7% | 8.2% |

| Company Owned Restaurant | |
|---|---|
| Gross Sales | $902,361 |
| Number of Restaurants | 1 |
| % of Greater Than 1800 sq. ft. | 100% |
| Restaurants open longer than 10 years | 1 |
| Average Gross Sales | $902,361 |
| Median Gross Sales | $902,361 |
| Number / Percent Above Average | N/A |
| Average Cost of Goods Sold (as a percentage of Gross Sales) | 23.6% |
| Average Labor (as a percentage of Gross Sales) | 26.6% |
| Average Rent (as a percentage of Gross Sales) | 5.7% |

| All Restaurants | | | | |
|---|---|---|---|---|
| | **All Stores** | **High** | **Med** | **Low** |
| Gross Sales Range | $82,399 - $2,086,194 | $768,909 - $2,086,194 | $534,903 - $770,054 | $82,399 - $612,391 |
| Number of Restaurants Greater than 1,500 sq ft | 95 | 32 | 31 | 32 |
| % of All Stores Greater than 1,500 sq ft. | 100% | 34% | 33% | 34% |

| | | | | |
|---|---|---|---|---|
| Stores open longer than 10 years | 80 (84%) | 28 (29%) | 26 (27%) | 26 (27%) |
| Average Gross Sales | $720,188 | $1,098,862 | $655,036 | $404,631 |
| Median Gross Sales | $661,691 | $1,014,945 | $661,691 | $424,134 |
| Number / Percent above Average | 38 (40%) | 11 (34%) | 16 (52%) | 19 (59%) |
| Average Cost of Goods Sold (as a percentage of Gross Sales) | 25.3% | 25.1% | 25.0% | 26.4% |
| Median Cost of Goods Sold (based on percentage of Gross Sales) | 25.4% | 25.2% | 24.9% | 26.0% |
| Average Cost of Labor (as a percentage of Gross Sales) | 25.7% | 24.9% | 26.3% | 26.8% |
| Median Cost of Labor (based on percentage of Gross Sales) | 21.2% | 28.7% | 21.1% | 13.6% |
| Average Rent Cost (as a percentage of Gross Sales) | 5.9% | 5.7% | 5.1% | 8.1% |
| Median Rent Cost (based on percentage of Gross Sales s) | 6.0% | 5.6% | 4.7% | 8.2% |

**Some restaurants have earned these amounts. Your individual results may differ. There is no assurance that you will earn as much.**

Included among the factors that can affect results (and may be reasons why your results may differ from those reported), are the type of location and market in which a restaurant operates; the restaurant's size; the length of time that a restaurant has been open and operating in a market; visibility; type of location (e.g., end cap, stand-alone, or in-line); traffic count, accessibility and available parking; ease of ingress and egress; hours of operation; local tastes; climate, weather, and seasonality; whether the restaurant offers delivery service; general economic conditions; menu pricing decisions; governmental regulations of production and sale of alcoholic beverages; whether the restaurant serves any alcoholic beverages; visibility of signage; population, density, household income, and other demographics. All of the restaurants reflected in this Item 19 offer and sell beer and wine. Some of the restaurants are located in seasonal or tourist destinations or near governmental or military installations. You should consider all of these (and other) factors and determine if the restaurant results reported are really comparable to the restaurant that may be operated by you.

The information presented is based on Pizza Factory's internal financial data, the unaudited financial data and records of Pizza Factory's affiliate(s), and self-reported and unaudited and unverified records of Pizza Factory's franchisees. We have not audited or verified figures or reports provided by franchisees nor have we asked questions of the submitting franchisees to determine whether the information provided to us is in fact accurate and complete, although we have no reason to believe it is unreliable. We do not know whether the information was prepared consistent with generally accepted accounting principles. All of the restaurants used in this Item 19 offer substantially the same products and services to their customers.

The information presented in this Item 19 is for periods prior to the global COVID-19 pandemic and, therefore, prior to the economic and social impact in various localities of both the COVID-19 pandemic itself and the various "shelter in place, "safer at home," "social distancing" and other governmental orders, regulations and recommendations enacted to address the pandemic, as well as the resulting temporary closures of non-essential businesses, reduced operating hours, limitations on occupancy and/or seating, restrictions on the offer and sale of certain goods and services, and alterations to the product and service lines offered.

As a result of the COVID-19 pandemic, two restaurants permanently closed due to the COVID-19 pandemic and two others had prior plans to relocate, and closed in the same period. These two restaurants plan to re-open in their new locations in the near future. Many of our restaurants were required to change their operations, such as eliminating or reducing in-dining room service, but adding curbside pickup or contactless delivery options for customers, and/or ramping up delivery or online ordering services. During the first four months of the pandemic (March-June, 2020) the aggregate gross sales of our open restaurants decreased 4%, followed by a 6% increase the next two months (July-August 2020) as compared to the same period in 2019 as seen in the following aggregate gross sales (as defined in Item 6) of Pizza Factory restaurants (excluding the 4 restaurants noted above) during each of the first eight months of 2020 compared to 2019.

| | January | February | March | April | May | June | July | August |
|---|---|---|---|---|---|---|---|---|
| Percent Change 2019 to 2020 | 3.6% | 9.8% | -11.5% | -5.0% | 3.0% | 3.3% | 9.7% | 2.1% |

As reflected above, initially the COVID-19 pandemic had a negative impact on system-wide sales in March and April. Based on above 2020 results since April and the adaptations we have made to the system that have been adopted for franchisee-operated Pizza Factory restaurants and our company-owned Pizza Factory restaurant, we believe that we the system has adapted to the present COVID-19 conditions and that we have a reasonable basis to include the Financial Performance Representation for 2019 and the information about regarding 2020 in this Item 19.

THE FINANCIAL PERFORMANCE REPRESENTATION FIGURES DO NOT REFLECT ALL COSTS AND OPERATING EXPENSES THAT MUST BE DEDUCTED FROM THE GROSS SALES FIGURES TO OBTAIN YOUR NET INCOME OR PROFIT.

Substantiation of the data used in preparing this Item 19 Financial Performance Representation will be made available to you on reasonable request.

Other than the preceding performance representation, we do not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Mary Jane Riva at 49430 Road 426, Suite D, PO Box 989 Oakhurst, California, 93644 (559) 683-3377; the Federal Trade Commission; and the appropriate state regulatory agencies.

## ITEM 20
## OUTLETS AND FRANCHISEE INFORMATION

Table No. 1
System Wide Outlet Summary
For Years 2017 to 2019:

| Outlet Type | Year | Outlets at Start of Year | Outlets at End of Year | Net Change |
|---|---|---|---|---|
| Franchised | 2017 | 109 | 104 | -5 |
| | 2018 | 104 | 104 | 0 |
| | 2019 | 104 | 100 | -4 |
| Company Owned | 2017 | 1 | 1 | 0 |
| | 2018 | 1 | 1 | 0 |
| | 2019 | 1 | 1 | 0 |
| Total Outlets | 2017 | 110 | 105 | -5 |
| | 2018 | 105 | 105 | 0 |
| | 2019 | 105 | 101 | -4 |

Table No. 2
Transfers of Outlets from Franchisees to New Owners (Other than the Franchisor)
For Years 2017 to 2019:

| State | Year | Number of Transfers |
|---|---|---|
| **Arizona** | 2017 | 0 |
| | 2018 | 0 |
| | 2019 | 1 |
| **California** | 2017 | 2 |
| | 2018 | 2 |
| | 2019 | 5 |
| **Nevada** | 2017 | 1 |
| | 2018 | 0 |
| | 2019 | 1 |
| **Washington** | 2017 | 1 |
| | 2018 | 2 |
| | 2019 | 0 |
| **Totals** | **2017** | **4** |
| | **2018** | **4** |
| | **2019** | **7** |

Table No. 3
Status of Franchised Outlets
For Years 2017 to 2019:

| 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 |
|---|---|---|---|---|---|---|---|---|
| **Arizona** | 2017 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| | 2018 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| | 2019 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| **California** | 2017 | 73 | 1 | 1 | 0 | 0 | 2 | 71 |
| | 2018 | 71 | 3 | 0 | 0 | 0 | 4 | 70 |
| | 2019 | 70 | 2 | 2 | 0 | 0 | 1 | 69 |
| **Idaho** | 2017 | 8 | 0 | 0 | 0 | 0 | 0 | 8 |
| | 2018 | 8 | 0 | 0 | 0 | 0 | 0 | 8 |
| | 2019 | 8 | 0 | 0 | 0 | 0 | 0 | 8 |
| **Nevada** | 2017 | 13 | 0 | 0 | 0 | 0 | 1 | 12 |
| | 2018 | 12 | 1 | 0 | 0 | 0 | 1 | 12 |
| | 2019 | 12 | 0 | 1 | 0 | 0 | 0 | 11 |
| **Oregon** | 2017 | 2 | 0 | 2 | 0 | 0 | 0 | 0 |
| | 2018 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2019 | 1 | 0 | 1 | 0 | 0 | 0 | 0 |
| **Washington** | 2017 | 10 | 0 | 0 | 0 | 0 | 0 | 10 |
| | 2018 | 10 | 0 | 0 | 0 | 0 | 0 | 10 |
| | 2019 | 10 | 0 | 0 | 1 | 0 | 0 | 9 |
| **Totals** | 2017 | 109 | 1 | 3 | 0 | 0 | 3 | 104 |
| | 2018 | 104 | 5 | 0 | 0 | 0 | 5 | 104 |
| | 2019 | 104 | 2 | 4 | 1 | 0 | 1 | 100 |

Table No. 4
Status of Company-owned Outlets
For Years 2017 to 2019:

| State | Year | Outlets at Start of Year | Outlets Opened | Outlets Re-Acquired from Franchisee | Outlets Closed | Outlets Sold to Franchisee | Outlets at End of Year |
|---|---|---|---|---|---|---|---|
| **Arizona** | 2017 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2018 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2019 | 1 | 0 | 0 | 0 | 0 | 1 |
| **Totals** | 2017 | 1 | 0 | 1 | 1 | 0 | 1 |
| | 2018 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2019 | 1 | 0 | 0 | 0 | 0 | 1 |

Table No. 5

**Projected Openings as of December 31, 2019:**

| State | Franchise Agreements Signed But Outlet Not Opened | Projected New Franchise Outlet In Next Fiscal Year | Projected Company-Owned Outlet In Next Fiscal Year |
|---|---|---|---|
| California | 2 | 5 | 0 |
| Idaho | 1 | 1 | 0 |
| Washington | 1 | 1 | 0 |
| **Totals** | **4** | **7** | **0** |

A list of the names and addresses of our current franchisees is attached as Exhibit "B" to this disclosure document. This list is effective as of December 31, 2019.

There were no franchisees that were non-operational as of December 31, 2019 and are not included on Exhibit "B" attached to this Disclosure Document.

As of December 31, 2019, Pizza Factory operates one company owned store in Show Low, Arizona.

The name, city and state, and current business telephone number, or if unknown, the last home telephone number of every franchisee who had a restaurant terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreement during the most recently completed fiscal year or who has not communicated with Pizza Factory within ten weeks of this disclosure document issuance date is also listed on Exhibit "B" to this disclosure document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

Pizza Factory does not generally require its franchisees to sign any confidentiality clause restricting their ability to speak openly about their experience with Pizza Factory. However, the Franchise Agreement prohibits any current or former franchisee from disclosing trade secrets and other proprietary information. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with us. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you. During the last three years, we are not aware that any of our current or former franchisees have signed a confidentially agreement other than the Franchise Agreement and agreements which only require that trade secrets and other proprietary information be kept secret. However, Pizza Factory has resolved conflicts with certain former franchisees by a settlement agreement which may have included a provision requiring that the terms of the settlement remain confidential.

We are not aware of any franchisee organization or association which has been formed and which pertains or relates to the franchise system being offered.

## ITEM 21
## FINANCIAL STATEMENTS:

Our audited balance sheet and profit and loss statement for the years ending December 31, 2019, December 31, 2018, and December 31, 2017, are attached as "Exhibit C."

## ITEM 22
## CONTRACTS:

Attached as Exhibit D is a copy of our current form of Franchise Agreement and its Exhibits:

- Guaranty and Assumption of Franchisee's Obligations (remove if not applicable)
- Security Agreement
- UCC-1 Financing Statement
- Opening Checklist
- General Release
- (Option) Purchase Agreement
- Guaranty and Assumption of Franchisee's Obligations (By Assigning Franchisee Holding Note From Buying Franchisee)
- Non-Competition, Unfair Competition, Etc.

Attached as Exhibit E is a copy of our current form of Area Development Agreement.

## ITEM 23
## RECEIPTS

You will find copies of a detachable receipt in Exhibit I at the end of this disclosure document.

**Exhibit A**
**Training Checklist**

# Training Week 1

Day 1 in Store

1. Review Schedule ____________
2. Store Tour ____________
3. Review SOP ____________
4. Review Prep List ____________
5. Spinning Pizza ____________
6. Topping Pizza ____________
7. Making Dough ____________
8. Oven Operation ____________
9. Prep Onions ____________
10. Prep Onions ____________
11. Prep Green Peppers ____________
12. Clean Pizza Deli ____________
13. Place Food Order ____________

Day 2 in Store

1. Fill Out Prep list ____________
2. Put Order Away ____________
3. Spinning Pizza ____________
4. Topping Pizza ____________
5. Making Dough ____________
6. Make Pizza Sauce ____________
7. Oven Operation ____________
8. Prep Onions ____________
9. Prep Green Peppers ____________
10. Prep Ham ____________
11. Prep Sausage ____________
12. Prep Bacon ____________
13. Grate Cheese ____________
14. Clean Pizza Deli ____________

Day 3 Training Store

1. Fill Out Prep List __________
2. Spinning Pizza __________
3. Topping Pizza __________
4. Making Dough __________
5. Oven Operations __________
6. Prep Onions __________
7. Prep Green Peppers __________
8. Grate Cheese __________
9. Slice Tomatos __________
10. Fold Boxes __________
11. Clean Pizza Deli __________

Day 4 Training Store

1. Fill Out Prep List __________
2. Saladino's Order __________
3. Spinning Pizza __________
4. Topping Pizza __________
5. Making Dough __________
6. Making Pizza Sauce __________
7. Oven Operation __________
8. Prep Onions __________
9. Prep Green Peppers __________
10. Slice Tomatos __________
11. Prep Sausage __________
12. Prep Bacon __________

Day 5 Training Store

1. Spinning Pizza ________
2. Topping Pizza ________
3. Making Dough ________
4. Oven Operation ________
5. Prep Onions ________
6. Prep Green Peppers ________
7. Slice Tomatos ________
8. Prep Sausage ________
9. Prep Bacon ________
10. Prep Ham ________
11. Stock & Clean Pizza Deli ________
12. Learn Freezer Pull ________
13. Count Drawer ________

Day 6 Training Store

1. Spinning Pizza ________
2. Topping Pizza ________
3. Making Dough ________
4. Making Pizza Sauce ________
5. Oven Operation ________
6. Prep Onions ________
7. Prep Green Peppers ________
8. Fold Boxes ________
9. Prep Sausage ________
10. Prep Bacon ________
11. Stock & Clean Pizza Deli ________
12. Freezer Pull ________
13. Count Drawer ________

Comments:________________________________________________

# Week 2 Training Store

## Day 1 Week 2 Training Store

1. Fill Out Prep List ___________
2. Saladinos Order ___________
3. Set Up Salad Bar ___________
4. Prep Salad Mix ___________
5. Prep Romaine ___________
6. Prep Shredded Lettuce ___________
7. Stock Sandwich Deli ___________
8. Set up Cut Table ___________
9. Set up Soup and Sauces ___________
10. Run Cut Table ___________
11. Run Sandwich Table ___________
12. Work POS ___________
13. Make Cookies ___________
14. Make Meatballs ___________

## Day 2 Week 2 Training Store

1. Fill Out Prep List ___________
2. Put Away Order ___________
3. Set Up Salad Bar ___________
4. Set Up Sandwich Deli ___________
5. Set Up Cut Table ___________
6. Slice Deli Meats ___________
7. Make Cookies ___________
8. Run Cut Table ___________
9. Run Sandwich Deli ___________
10. Work on POS ___________

Day 3 Week 2 Training Store

1. Fill Out Prep List __________
2. Set Up Salad Bar __________
3. Set Up Sandwich Deli __________
4. Set Up Cut Table __________
5. Prep Sub Sandwiches __________
6. Prep Meat Sauce __________
7. Prep Salad Bar Vegi's __________
8. Prep Lasagna __________
9. Work Cut Table __________
10. Work Sandwich Table __________
11. Work POS __________

Day 4 Week 2 Training Store

1. Fill Out Prep List __________
2. Set Up Salad Bar __________
3. Set Up Sandwich Table __________
4. Set Up Cut Table __________
5. Help With Any Prep __________
6. Work Cut Table __________
7. Work Sandwich Table __________
8. Work POS __________
9. Maintain Salad Bar __________
10. Stock Cut Table Area __________
11. Stock Sandwich Table __________

Day 5 Week 2 Training Store

1. Work Cut Table __________
2. Work Sandwich Table __________
3. Work POS __________
4. Clean & Rotate Sand Deli__________
5. Clean & Rotate Salad Bar__________
6. Clean Cut Table __________
7. Maintain Clean Kitchen __________
8. Fill Cheese & Peppers __________
9. Clean Restrooms __________
10. Sweep & Mop Floors __________
11. Clean Drains __________
12. Clean High Chairs __________
13. Count Drawer __________
14. Put Heated Sauces Away__________

Day 6 Week 2 Training Store

1. Work Cut Table __________
2. Work Sandwich Table __________
3. Work POS __________
4. Clean & Rotate Sand Deli__________
5. Clean & Rotate Salad Bar__________
6. Clean Cut Table __________
7. Maintain Clean Kitchen __________
8. Fill Cheese & Peppers __________
9. Clean Restrooms __________
10. Sweep & Mop Floors __________
11. Clean Drains __________
12. Clean High Chairs __________
13. Count Drawer __________
14. Put Heated Sauces Away__________

Comments:__________________________________________________________

# Week 3 Training Store

Day 1 Week 3 Training Store

1. Help With Any Prep ____________
2. Work Cut Table ____________
3. Work Sandwich Deli ____________
4. Work POS ____________
5. Make Schedule in POS ____________
6. Review Payroll ____________
7. Review Seasoning Order____________
8. Review Deliveries In POS____________
9. Go On Deliveries ____________
10. Hiring Procedures ____________
11. Daily reports ____________

Day 2 Week 3 Training Store

1. Work Cut Table ____________
2. Work Sandwich Deli ____________
3. Work POS ____________
4. Make Dough ____________
5. Store Inventory ____________
6. End Of Month Reports ____________
7. In Store Marketing ____________
8. Corporate Marketing ____________
9. Textmunications ____________
10. Email Club ____________

Day 3 Week 3 Training Store

1. Fill Out Prep List __________
2. Place Saladinos Order __________
3. Run Pizza Table __________
4. Do All Pizza Prep __________
5. Watch Labor During Shift__________
6. How to greet Customers __________
7. Greet Every Customer __________
8. Start Answering Phones __________
9. Food Handlers Card __________

Day 4 Week 3 Training Store

1. Fill Out Prep List __________
2. Work Pizza Table __________
3. Train A New Pizza Cook __________
4. Coupon Input __________
5. Employee Input __________
6. Learn POS Reports __________
7. Marketing To Schools __________
8. Marketing to Business __________
9. Labor Law Posters __________

Day 5 Week 3 Training Store

1. Manage The Lunch Hour __________
2. Run Deliveries __________
3. Work On Community Event__________
4. Control Labor All Day __________
5. Work Pizza Cut Table __________
6. Close Out Deliveries __________
7. Close Out POS __________

Day 6 Week 3 Training Store

1. Clean Ovens ___________
2. Clean Hood ___________
3. Clean Condensers ___________
4. Conduct Employee Meeting___________
5. Restaurant Maintance ___________

Comments:_______________________________________________________________

_______________________________________________________________________

_______________________________________________________________________

_______________________________________________________________________

_______________________________________________________________________

_______________________________________________________________________

# Week 4 Training Store

Week 4 will be a recap of all three week of training. You will be operating the store as if it were your own. The following item will be covered to ensure you are confident in your ability to successfully run your own store.

**SOP Rewiew**

**Food Prep**

1. Dough Prep __________
2. Garlic Bread __________
3. Meatballs __________
4. Pizza Sauce __________
5. Sausage Pizza Topping __________
6. Sausage Patties __________
7. Par Cooked Bacon __________
8. Meat Sauce __________
9. Spaghetti Prep __________
10. Fettuccine Prep __________
11. Lasagna Prep __________
12. Salad Bar Prep __________
13. Romaine Prep __________
14. Lettuce Mix Prep __________
15. Diced Ham __________
16. Sliced Green Peppers __________
17. Sliced Onions __________
18. Shredded Lettuce __________
19. Sliced Tomatoes __________
20. Sliced Provolone Cheese __________
21. Sliced Deli Meats __________
22. Make Sub Packs __________

Menu Items

1. How To Use Build Charts ________
2. Specialty Pizzas ________
3. All Pastas ________
4. Calzone ________
5. Wings ________
6. Specialty Salads ________
7. Bread Sticks ________
8. Garlic Bread/GCB ________
9. Pizza Bread ________
10. All Sandwiches ________
11. Deserts ________

Misc. Operations

1. Oven Operation ________
2. Store Organization ________
3. Opening And Closing Checklists ________
4. Prep List ________
5. Equipment Maintenance ________
6. Food And Supply Controls ________
7. Mandatory Food Products ________
8. Seasoning Order ________

Bookkeeping

1. Pos System ________
2. Cash Drawer Set Up and Close ________
3. Daily Sales Report/End Of Day ________
4. Book Keeping ________
5. End Of Month Paper Work ________
6. Inventory ________
7. Reading P&L ________

Management Training

1. Employee Policys ____________
2. Labor Law Posting ____________
3. Child Labor Laws/Work Permits____________
4. ABC Laws ____________
5. Hiring/Paper Work ____________
6. Scheduling ____________
7. Receiving Food ____________

Social Media

1. Face Book ____________
2. Twitter ____________
3. Textmunications ____________
4. Instagram ____________
5. Yelp ____________
6. PF Web Page ____________
7. Change Coupons On Web Page____________

Once hours have been completed at the training store this page must be signed and returned to the office

| | |
|---|---|
| ______________________________ | ______________________________ |
| Franchisee/Trainee | Training Director/Pizza Factory Rep |
| Date__________________________ | Date__________________________ |

## Exhibit B
## Current List of Existing Franchisees

**PIZZA FACTORY, INC.**

**FRANCHISED RESTAURANTS AS OF DECEMBER 31, 2019**

| STORE | CONTACT | ADDRESS | TELEPHONE |
|---|---|---|---|
| **ARIZONA** | | | |
| BUCKEYE #64 | Gary & Regina Nunes | 21765 W. Yuma Rd., Ste. 103<br>Buckeye, AZ 85326 | 623/691-6333 |
| PAYSON #29 | Rodney & Gail Dahlman | 238 E. Hwy 260 #154<br>Payson, AZ 85541 | 928/474-1895 |
| SHOW LOW #6 | Darren Warrick | 100 N. White Mountain Rd.<br># 103, Show Low, AZ 85901 | 928/537-7771 |
| WILLIAMS #90 | Tony and Velma Wortner | 214 W. Route 66; *P.O. Box 323<br>Williams, AZ 86046 | 928/635-3009 |
| **CALIFORNIA** | | | |
| ACTON #92 | Moonlight Enterprises, Inc.<br>Michelle Cripps William Wiseman | 33312 Santiago Road<br>Acton, CA 93510 | 661/526-6766 |
| ANZA #144 | Bob & Mary Jane Riva | 56030 Highway 371<br>P.O. Box 390987<br>Anza, CA 92539 | 951/389-6155 |
| APPLE VALLEY #134 | Val & Maria Diniz | 12275 Apple Valley Rd.,<br>Apple Valley, CA 92308 | 760/247-7477 |
| ATWATER #57 | Josh & Allyson Holman | 1300 Commerce Ave<br>Atwater, CA 95301 | 209/357-5700 |
| BISHOP #41 | Martin West,<br>Matt & Bret West | 970 No. Main St.<br>Bishop, CA 93514 | 760/872-8888 |
| CAMERON PARK #32 | Dan Neher | 3421 Coach Lane<br>Cameron Park, CA 95682 | 530/677-3611 |
| CHESTER #45 | Mike & Laura Kincaid | 197 Main St., *P.O. Box 733<br>Chester, CA 96020 | 530/258-3155 |
| COLFAX #19 | Jason Daley | 555 S. Auburn St., Ste. D<br>Colfax, CA 95713 | 530/346-8788 |
| CORCORAN #1 | Troy Van Velson | 1117 Whitley<br>Corcoran, CA 93212 | 559/992-3148 |
| DENAIR #118 | Kevin & Lorinda Megee | 4326 Main St.<br>Denair, CA 95316 | 209/634-2565 |
| DOS PALOS #2 | Fernando Garcia, Robyn Wiener-Garcia | 1516 Center<br>Dos Palos, CA 93620,<br>*P.O. Box 68<br>Firebaugh, CA 93622 | 209/392-6124 |
| DUNSMUIR #3 | Gary & Jeannie Rogers | 5804 Dunsmuir Ave, *P.O. Box 95 Dunsmuir, CA 96025 | 530/235-4849 |

| STORE | CONTACT | ADDRESS | TELEPHONE |
|---|---|---|---|
| FIREBAUGH #4 | Fernando Garcia, Robyn Wiener-Garcia | 999 ‘O’ St., *P.O. Box 68<br>Firebaugh, CA 93622 | 559/659-3009 |
| FOWLER #5 | Tim & Denise Hamblet | 133 South 6th, *PO Box 178<br>Fowler, CA 93625 | 559/834-3614 |
| FRENCH VALLEY #77 | Bob & Mary Jane Riva | 30676 Benton Road<br>Winchester, CA 92596 | 951/926-3100 |
| FRESNO #70 | Heman Patel | 7775 N. First Street<br>Fresno, CA 93720 | 559/447-9500 |
| FRIANT #65 | Kari & Kathy Ley, Ryan Ley | 17836 N. Friant Rd. #A<br>Friant, CA 93626 | 559/822-4288 |
| GILROY #149 | Dennis Cole | 363 East 10th Street<br>Gilroy, CA 95020 | 408/842-1011 |
| GROVELAND #23 | Dan Neher | 18583 Main Street<br>Groveland, CA 95321,<br>*PO Box 489<br>Shingle Springs, CA 95682 | 209/962-7757 |
| GUSTINE #43 | Ernie & Patricia Amorim, Kevin Amorim | 447 5th Street<br>Gustine, CA 95322 | 209/854-2777 |
| HESPERIA #142 | Brian & Kim Lombardi | 14135 Main Street, Ste. 102<br>Hesperia, CA 92345 | 760/948-8024 |
| HUGHSON #31 | Derek & Carol Ross | 6901 Hughson Ave., *P.O. Box 536<br>Hughson, CA 95326 | 209/883-4445 |
| IONE #129 | Dan Neher | 10 E. Main Street<br>Ione, CA 95640,<br>*PO Box 489<br>Shingle Springs, CA 95682 | 209/274-0270 |
| JANESVILLE #89 | Jeff & Meredith Chew | 464-420 Church St.<br>*P.O. Box 1087<br>Janesville, CA 96114 | 530/253-3700 |
| LAKE ISABELLA #30 | Deaver | 5640 Lake Isabella Blvd.<br>*P.O. Box 3307<br>Lake Isabella, CA 93240 | 760/379-5605 |
| LE GRAND #88 | Noel & Yoli Cornejo | 13208 E. LeGrand Rd., #A<br>LeGrand, CA 95333 | 209/389-4000 |
| LIVE OAK #60 | Kinser/Woten | 10345 Live Oak Blvd.<br>Live Oak, CA 95953 | 530/695-3232 |
| LOCKEFORD #7 | Tim Flores | 14088 E. Hwy 88 #A<br>Lockeford, CA 95237 | 209/727-3707 |
| LONE PINE #25 | Stan & Karen Dye | 301 S. Main<br>Lone Pine, CA 93545,<br>*1601 N. Triangle Dr.<br>Ridgecrest, CA 93555 | 760/876-4707 |
| LOOMIS #22 | Eric & Maren Lombardi | 5831 Horseshoe Bar<br>*PO Box 1694<br>Loomis, CA 95650 | 916/652-0477 |

| STORE | CONTACT | ADDRESS | TELEPHONE |
|---|---|---|---|
| MADERA RANCHOS #63 | Hal & Mary Ann Parks | 37184 Avenue 12 #101<br>Madera, CA 93638 | 559/645-7011 |
| MARIPOSA #8 | Ron Willey | 5005 5th St., *PO Box 538<br>Mariposa, CA 95338 | 209/966-3112 |
| MENDOTA #26 | Scott & Ruby Gordon | 747 Derrick Avenue<br>Mendota, CA 93640,<br>*P.O. Box 1079<br>Firebaugh, CA 93622 | 559/655-3266 |
| MENIFEE #73 | Jack Buss | 25908 Newport Rd. #G<br>Menifee, CA 92584 | 951/672-4026 |
| MERCED #13 | Alok & Bhavna Shukla | 3146 G Street, Suite 147<br>Merced, CA 95340 | 209/723-2425 |
| MURRIETA WEST #113 | Marc Holt | 23811 Washington Ave. #106<br>Murrieta, CA 92562 | 951/698-6118 |
| NORTH FORK #9 | Greg Kissee | 33173 Road 222, *P.O. Box 1481<br>North Fork, CA 93643 | 559/877-7777 |
| NORTH SALINAS #139 | Ernie & Patricia Amorim, Kevin Amorim | 1945 Natividad Road<br>Salinas, CA 93908 | 831/444-0100 |
| OAKHURST #10 | Pam Latham | 40120 Hwy 41, *P.O. Box 1895<br>Oakhurst, CA 93644 | 559/683-2700 |
| PATTERSON #82 | Dennis Cole | 2985 Renzo Lane, Suite H<br>Patterson, CA 95363,<br>*PO Box 165<br>San Juan Bautista, CA 95045 | 209/892-5488 |
| PHELAN #11 | Brian & Kim Lombardi | 3936 Phelan Rd. Ste. B 17<br>*P.O. Box 291850<br>Phelan, CA 92329-1850 | 760/868-6543 |
| PLACERVILLE #100 | David & Terri Thomas | 1242 Broadway<br>Placerville, CA 95667 | 530/626-3034 |
| PLEASANT VALLEY #28 | Greg & Ellen Barker | 4570 Pleasant Valley<br>Placerville, CA 95667 | 530/644-6043 |
| POLLOCK PINES #18 | Dan & Diana Princeau | 6536 Pony Express Trail<br>Pollock Pines, CA 95726 | 530/647-1944 |
| PORTERVILLE #109 | Chris & Michelle Nursery, Scott & Shanell Gammon | 897 W. Henderson<br>Porterville, CA 93257 | 559/784-8677 |
| PORTOLA # 35 | Jaspreet Kaur | 197 Commercial St.<br>Portola, CA 96122 | 530/832-0430 |
| PRATHER #12 | Dan & Bridgette Barkume | 29424 Auberry Road<br>*P.O. Box 432<br>Prather, CA 93651 | 559/855-2800 |
| RIDGECREST #140 | Stan & Karen Dye | 1601 N. Triangle Drive<br>Ridgecrest, CA 93555 | 760/446-7492 |
| RIO DELL #33 | Jim Rich | 185 Wildwood Ave.<br>Rio Dell, CA 95562 | 707/764-2233 |

| STORE | CONTACT | ADDRESS | TELEPHONE |
|---|---|---|---|
| RIO VISTA #39 | Dwayne & Susan Stevens, Dennis & Laura Sheil | 201 Main St.<br>Rio Vista, CA 94571 | 707/374-6868 |
| SAN ANDREAS #15 | Dave McNeil, Danielle Dunn | 373 W. St. Charles<br>San Andreas, CA 95249 | 209/754-1847 |
| SAN JUAN BAUTISTA #75 | Dennis Cole | 301 The Alameda #H<br>*P.O. Box 165<br>San Juan Bautista, CA 95045 | 831/623-1011 |
| SANTA NELLA #145 | Ernie & Patricia Amorim, Kevin Amorim | 13104-B South Highway 33<br>Santa Nella, CA 95322 | 209/826-2777 |
| SHASTA LAKE #78 | Greg Rogers | 4432 Shasta Dam Blvd.<br>Shasta Lake, CA 96019 | 530/275-4455 |
| SOUTH SALINAS #138 | Manuel & Maria Amorim, Ernie Amorim, Kevin Amorim | 926 South Main Street<br>Salinas, CA 93901 | 831/758-3227 |
| SUSANVILLE #61 | Jeff & Meredith Chew | 2975 Main St.<br>Susanville, CA 96130 | 530/257-0222 |
| TAFT #20 | Felix & Sherry Bravo | 614 Center Street<br>Taft, CA 93268 | 661/765-5311 |
| TEMECULA #105 | Anthony Lum Jr., Bre Hawkins | 31725 Temecula Pkwy.<br>Temecula, CA 92592 | 951/303-8500 |
| THREE RIVERS #62 | Todd Tashiro | 40915 Sierra Dr.<br>Three Rivers, CA 93271 | 559/561-1018 |
| TURLOCK #24 | Brent & Kim Jonson | 1050 W. Monte Vista Ave.<br>Turlock, CA 95382 | 209/634-5000 |
| TWAIN HARTE #59 | Bob & Mary Jane Riva | 18711 Tiffeni Drive<br>Twain Hare, CA 95383 | 209/677-3497 |
| VALLEY SPRINGS #51 | Kim Irwin | 1919 Vista Del Lago #5<br>Valley Springs, CA 95252 | 209/772-9516 /9517 |
| VISALIA #27 | Tony & Juana Gonzalez, Ilene Gonzalez | 3121 W. Noble Ave.<br>Visalia, CA 93277 | 559/740-0310 |
| WALNUT GROVE #83 | Gurcaten Dhaliwal | 14127 River Rd., *P.O. Box 1004<br>Walnut Grove, CA 95690 | 916/776-2626 |
| WASCO #146 | Russ Akins | 2325 Hwy 46<br>Wasco, CA 93280 | 661/240-5262 |
| WEED #48 | Tony Mazzaglia | 132 No. Weed Blvd.<br>Weed, CA 96094 | 530/938-3088 |
| WILLOW CREEK #85 | Bob & Mary Jane Riva | 39032 Hwy 299, *PO Box 999<br>Willow Creek, CA 95573 | 530/629-4800 |
| WINTERS #17 | Chuck Pearce<br>Nancy Reynolds | 108 Main Street<br>Winters, CA 95694 | 530/212-5101 |
| WOODLAKE #16 | Tony & Juana Gonzalez, Crystal Gonzalez | 250 E. Antelope #C<br>Woodlake, CA 93286 | 559/564-3348 |

| STORE | CONTACT | ADDRESS | TELEPHONE |
|---|---|---|---|
| | | **IDAHO** | |
| BONNERS FERRY #53 | Greg Kissee & DJ Cartwright | 6637 Fry St., *PO Box 3207 Bonners Ferry, ID 83805 | 208/267-7771 |
| COEUR D'ALENE #116 | Jan & Julie Speelman | 503 West Appleway Coeur d'Alene, ID 83814 | 208/765-3434 |
| EMMETT #94 | Chow & Cindy Chavatipon | 102 W. 5th St. #B/C Emmett, ID 83617 | 208/398-7777 /8888 |
| GRANGEVILLE #99 | Mike & Beth Sturdevant | 126 West Main St. Grangeville, ID 83530 | 208/983-5555 |
| KAMIAH #37 | Mike & Sherry Dunning | 814 Hwy 12, *PO Box 518 Kamiah, ID 83536 | 208/935-2134 |
| OROFINO #52 | Shannon Snyder | 307 Michigan Ave, *PO Box 1132 Orofino, ID 83544 | 208/476-5519 |
| ST. MARIES #68 | Jan & Julie Speelman | 910 Main St. St. Maries, ID 83861 | 208/245-5515 |
| WALLACE #54 | Jamere Radford | 612 Bank St. Wallace, ID 83873 | 208/753-9003 |
| | | **NEVADA** | |
| BATTLE MOUNTAIN #66 | Roop Singh | 760 S. Broad Street Battle Mountain, NV 89820 | 775/635-8190 |
| CARLIN # 108 | Tonya Roland | 801 Poplar Street, *PO Box 637 Carlin, NV 89822 | 775/754-2200 |
| CARSON CITY #131 | Darren Maxfield | 3120 Hwy. 50 East Carson City, NV 89701 | 775/882-9800 |
| DAYTON #93 | Michael O'Lee | 185 Highway 50 East Dayton, NV 89403 | 775/246-3300 |
| FALLON #56 | Eric & Maren Lombardi | 2199 W. Williams Ave. Fallon, NV 89406 | 775/867-4992 |
| FERNLEY #21 | Eric Lombardi | 1460 Hwy. 95A Ste. #5 Fernley, NV 89408 | 775/575-4548 |
| LOVELOCK #67 | Gary Singh & Jindu Kaur | 365 Cornell Ave., *PO Box 43, Lovelock, NV 89419 | 775/273-3232 |
| RED ROCK #42 | James & Stacy Huffmon | 8790 Red Rock Rd., Ste. 100 Reno, NV 89508 | 775/677-2877 |
| RENO SOUTHWEST #148 | James & Stacy Huffmon | 3480 Lakeside Dr., Suite B Reno, NV 89509 | 775-433-1236 |
| SILVER SPRINGS #95 | Michael Sanchez | 1080B Hwy 95A Silver Springs, NV 89429 | 775/577-4992 |
| SPANISH SPRINGS #98 | Michael Sanchez | 9725 Pyramid Way Sparks, NV 89441 | 775/331-3600 |
| | | **WASHINGTON** | |

| STORE | CONTACT | ADDRESS | TELEPHONE |
| --- | --- | --- | --- |
| ANACORTES #47 | Dylan Ray | 3219 Commercial Ave. Anacortes, WA 98221 | 360/293-1000 |
| ARLINGTON #55 | Becky Lowe, Ryan Lawless, Marcy Lawless | 509 West Avenue Arlington, WA 98223 | 360/435-8701 |
| BURLINGTON #34 | Bob & Mary Jane Riva | 107 Cedar Avenue Burlington, WA 98233 | 360/757-0600 |
| COUPEVILLE #14 | Becky Lowe, Ryan Lawless, Marcy Lawless | 107 S. Main St. Ste. B101, Coupeville, WA 98239 | 360/678-3200 |
| DEER PARK #46 | Stephen & Sandy Addison | 619 S. Fir St., *PO Box 2296 Deer Park, WA 99006 | 509/276-3000 |
| KINGSTON #36 | Steve & Sandy Addison | 10978 State Hwy 104 #111 Kingston, WA 98346, *PO Box 1359 Kingston, WA 99006 | 360/297-7777 |
| MEDICAL LAKE #69 | Jason & Kristin Rodney | 123 S. Broad St. Medical Lake, WA 99022 | 509/299-9100 |
| PORT TOWNSEND #71 | Bob & Mary Jane Riva Cory & Mary Kay Haas | 1102 Water St., Port Townsend, WA 98368 | 360/385-7223 |
| SUNCREST #102 | Fred & Torrey Reichwald | 5978 Hwy 291, Ste. 10 Nine Mile Falls, WA 99026 | 509/464-3994 |

**Franchisees for Agreements Signed but Outlets Not Opened as of December 31, 2019**

Con Paulos - Twin Falls, ID
163 West 580 South
Jerome, ID 83338
208-420-3900

Dennis Cole - Gilroy, CA
P.O. Box 165
San Juan Bautista, CA 95045
209-892-5488

Chuck Pearce and Nancy Reynolds - Winters, CA
P.O. Box 776
Winters, CA 95694
707-694-5559 (Chuck)
707-758-6426 (Nancy)

CDH Restaurants LLC - Ocean Shores, WA
Margaret E. Dawson & Robert S. Corcoran
598 Point Brown Ave NE
Ocean Shores, WA, 98569
206-409-3341

**Former Franchisees as of December 31, 2019**

| Name, last known address and telephone number: | Reason |
|---|---|
| Val & Maria Diniz<br>12785 Quail Vista Road<br>Apple Valley, CA 92308<br>760/247-6354 | Transfer |
| Laura Massaro<br>4470 Hall Road<br>Blaine, WA 98230<br>360/220-7553 | Closed |
| Gary & Regina Nunes<br>1398 S. 222nd Lane<br>Buckeye, AZ 85326<br>623/327-3123 | Transfer |
| Tonya Roland<br>P.O. Box 1547<br>Carlin, NV 89822<br>775/754-6638 | Transfer |
| Alvaro & Felicitas Carreno<br>970 Elm Ave.<br>Seaside, CA 93955<br>831/521-9432 | Closed |
| Kulwinder Tamber<br>2335 N. Mountainside Drive<br>Los Banos, CA 93635<br>209/485-4925 | Closed |
| Stephane & Gina Rossan<br>P.O. Box 1033<br>Genoa, NV 89411<br>408/839-4462 | Closed |
| Mike Tatum<br>4376 Snowbrush Ct.<br>Lake Oswego, OR 97035<br>925/580-6247 | Closed |
| Jaspreet Kaur<br>7955 Opal Station Drive<br>Reno, NV 89506<br>775/527-8360 | Transfer |
| Butch Kirk<br>2576 Cottle Ave.<br>San Jose, CA 95125<br>408/269-8282 | Closed |

| Name, last known address and telephone number: | Reason |
|---|---|
| Greg Rogers<br>6954 Pistacio Lane<br>Redding, CA 96002<br>530/365-1321 | Transfer |
| Brent & Kimberly Jonson<br>1112 E. Main Street<br>Turlock, CA 95380<br>209/667-2765 | Transfer |
| Bob & Mary Jane Riva<br>P.O. Box 989<br>Oakhurst, CA 93644<br>559-683-3377 | Transfer |

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

**Exhibit C**
**Franchisor's Audited Balance Sheet and Profit And Loss Statements**

# PIZZA FACTORY, INC.

FINANCIAL STATEMENTS

and

INDEPENDENT AUDITOR'S REPORT

Years Ended
December 31, 2019, 2018, and 2017

Dritsas
Groom
McCormick LLP

CERTIFIED PUBLIC ACCOUNTANTS
7511 N. Remington Avenue, Suite #101, Fresno, CA 93711
559 447 8484 T | 559 447 8464 F
dgmcpa.com



# INDEPENDENT AUDITOR'S REPORT

To The Board of Directors and Stockholders of
Pizza Factory, Inc.
Oakhurst, California

We have audited the accompanying financial statements of Pizza Factory, Inc. (a California S Corporation) which comprise the balance sheets as of December 31, 2019, 2018, and 2017, and the related statements of income and retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pizza Factory, Inc. as of December 31, 2019, 2018, and 2017, 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.

CERTIFIED PUBLIC ACCOUNTANTS
7511 N. Remington Avenue, Suite #101, Fresno, CA 93711
559 447 8484 T | 559 447 8464 F
dgmcpa.com

Dritsas Groom McCormick LLP



To The Board of Directors and Stockholders of
Pizza Factory, Inc.

**Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules I and II are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dritsas Groom McCormick LLP

April 15, 2020

# PIZZA FACTORY, INC.

BALANCE SHEETS

December 31, 2019, 2018, and 2017

| | 2019 | 2018 | RESTATED 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash | $ 1,181,355 | $ 1,580,043 | $ 1,772,872 |
| Accounts receivable | 378,439 | 379,373 | 332,302 |
| Accounts receivable - related party | 37,960 | 50,202 | 36,926 |
| Prepaid expenses | 205,826 | 189,091 | 165,950 |
| Prepaid taxes | - | - | 13,180 |
| Advertising - prepaid supplies | 44,309 | 62,355 | 73,094 |
| Store inventory | 7,903 | 7,720 | 7,140 |
| Current portion of notes receivable | 33,787 | 65,297 | 57,127 |
| **TOTAL CURRENT ASSETS** | 1,889,579 | 2,334,081 | 2,458,591 |
| Notes receivable, less current portion | 20,343 | 26,730 | 54,597 |
| Other assets | 283 | 283 | 283 |
| Property and equipment, net | 122,041 | 119,250 | 148,442 |
| | 142,667 | 146,263 | 203,322 |
| **TOTAL ASSETS** | $ 2,032,246 | $ 2,480,344 | $ 2,661,913 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| **CURRENT LIABILITIES** | | | |
| Accounts payable | $ 215,719 | $ 55,081 | $ 62,223 |
| Accrued payroll liabilities | 39,047 | 50,232 | 48,136 |
| Deferred revenue | 332,410 | 777,128 | 829,932 |
| State tax payable | 2,500 | - | - |
| Accrued liabilities | 6,796 | 6,394 | 4,873 |
| **TOTAL CURRENT LIABILITIES** | 596,472 | 888,835 | 945,164 |
| **TOTAL LIABILITIES** | 596,472 | 888,835 | 945,164 |
| **STOCKHOLDERS' EQUITY** | | | |
| Common stock, no par value, 1,000 shares authorized, 200 shares issued and outstanding | 1,600 | 1,600 | 1,600 |
| Retained earnings | 1,434,174 | 1,589,909 | 1,715,149 |
| **TOTAL STOCKHOLDERS' EQUITY** | 1,435,774 | 1,591,509 | 1,716,749 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 2,032,246 | $ 2,480,344 | $ 2,661,913 |

See notes to the financial statements.

## PIZZA FACTORY, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended December 31, 2019, 2018, and 2017

| | 2019 | 2018 | RESTATED 2017 |
|---|---|---|---|
| **REVENUES:** | | | |
| Royalty fees, net of promotions | $ 2,705,461 | $ 2,547,745 | $ 2,517,231 |
| Advertising assessments, net | | | |
| Contributions and premiums | 1,280,908 | 1,343,979 | 1,182,817 |
| Exclusivity contract income | - | 68,543 | 133,293 |
| Franchise fees | 54,483 | 85,000 | 36,000 |
| Training fees | - | - | 5,000 |
| Exclusivity contract income | 134,976 | 75,534 | 13,200 |
| Store sales, net of discounts | 843,315 | 782,389 | 766,621 |
| | 5,019,143 | 4,903,190 | 4,654,162 |
| **OPERATING COSTS AND EXPENSES** | | | |
| Advertising and related administrative expenses | 1,575,978 | 1,412,869 | 1,316,488 |
| Franchisor operating expenses (Schedule I) | 2,003,106 | 1,915,501 | 1,841,976 |
| Store operating expenses (Schedule II) | 680,279 | 654,016 | 650,500 |
| | 4,259,363 | 3,982,386 | 3,808,964 |
| **INCOME FROM OPERATIONS** | 759,780 | 920,804 | 845,198 |
| **OTHER INCOME (EXPENSE):** | | | |
| Gain (loss) on sale of assets | 1,350 | 43,554 | 35,049 |
| Other income | 112,491 | 91,435 | 110,934 |
| Interest income - advertising assessments | 167 | 347 | 378 |
| Interest income | 3,252 | 3,908 | 5,204 |
| Interest expense | (276) | - | - |
| | 116,984 | 139,244 | 151,565 |
| **INCOME BEFORE TAX** | 876,764 | 1,060,048 | 996,763 |
| **INCOME TAX PROVISION** | 11,620 | 11,563 | 10,670 |
| **NET INCOME** | $ 865,144 | $ 1,048,485 | $ 986,093 |
| **RETAINED EARNINGS, BEGINNING OF YEAR** | 1,589,909 | 1,715,149 | 1,532,330 |
| Cumulative effect of adoption of ASC 606 | 504,204 | - | - |
| **ADJUSTED BALANCE AT JANUARY 1, 201** | 2,094,113 | 1,715,149 | 1,532,330 |
| Contributions | 30,000 | - | - |
| Distributions | (1,555,083) | (1,173,725) | (803,274) |
| **RETAINED EARNINGS, END OF YEAR** | $ 1,434,174 | $ 1,589,909 | $ 1,715,149 |

See notes to the financial statements.

# PIZZA FACTORY, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2019, 2018, and 2017

| | 2019 | 2018 | RESTATED 2017 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net Income | $ 865,144 | $ 1,048,485 | $ 986,093 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| (Gain) loss on disposal of assets | (1,350) | (43,554) | (35,049) |
| Depreciation | 24,574 | 29,190 | 41,507 |
| Bad debt expense | 2,390 | 25,524 | 168,019 |
| (Increase) decrease in: | | | |
| Accounts receivable | (1,456) | (71,634) | (151,685) |
| Accounts receivable - related party | 12,242 | (13,276) | (11,269) |
| Prepaid expenses | (16,735) | (23,141) | (141,411) |
| Prepaid taxes | - | 13,180 | (13,180) |
| Advertising - prepaid supplies | 18,046 | 10,739 | (13,899) |
| Store inventory | (183) | (580) | (2,420) |
| Other assets | - | - | 6,241 |
| Increase (decrease) in: | | | |
| Accounts payable | 160,638 | (7,141) | 17,212 |
| Accrued payroll liabilities | (11,185) | 2,096 | 3,863 |
| State tax payable | 2,500 | | - |
| Accrued liabilities | 402 | 1,521 | 551 |
| Gift card liability | 18,968 | 17,511 | 7,443 |
| Deferred revenue | 40,518 | (70,316) | 72,220 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 1,114,513 | 918,604 | 934,236 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Collections on notes receivable | 65,422 | 69,190 | 174,192 |
| Additions to notes receivable | (27,525) | (57,898) | (105,939) |
| Proceeds from sale of assets | 1,350 | 51,000 | 4,150 |
| Purchase of improvements and equipment | (27,365) | - | (54,643) |
| **NET CASH PROVIDED BY INVESTING ACTIVITIES** | $ 11,882 | $ 62,292 | $ 17,760 |

See notes to the financial statements.

## PIZZA FACTORY, INC.

STATEMENTS OF CASH FLOWS (continued)

Years Ended December 31, 2019, 2018, and 2017

| | 2019 | 2018 | RESTATED 2017 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Contributions | $ 30,000 | $ - | $ - |
| Distributions | (1,555,083) | (1,173,725) | (781,781) |
| **NET CASH USED IN FINANCING ACTIVITES** | (1,525,083) | (1,173,725) | (781,781) |
| **INCREASE (DECREASE) IN CASH:** | (398,688) | (192,829) | 170,215 |
| **CASH AT BEGINNING OF YEAR** | 1,580,043 | 1,772,872 | 1,602,657 |
| **CASH AT END OF YEAR** | $ 1,181,355 | $ 1,580,043 | $ 1,772,872 |

| | 2019 | 2018 | RESTATED 2017 |
|---|---|---|---|
| **SUPPLEMENTAL DISCLOSURES** | | | |
| Cash paid during the year for Interest | $ 276 | $ - | $ - |
| Income taxes | $ 9,000 | $ - | $ 23,850 |

See notes to the financial statements.

# PIZZA FACTORY, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019, 2018, and 2017

## *NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

### Business activity
Pizza Factory, Inc. (hereinafter "the Company") is a California S corporation incorporated June 3, 1982 for the purpose of franchising pizza and pasta restaurants. The corporation also operates restaurant locations. There are Pizza Factory restaurants in multiple cities across six states in the United States.

### Basis of accounting

The Company's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

### Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Change in accounting policy
In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard for revenue recognition, Accounting Standards Codification Topic 606 (ASC 606). Subsequent to issuing ASC 606, the FASB issued a number of updates and technical improvements which did not change the core principles of the guidance. The purpose of ASC 606 is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability across industries. Effective January 1, 2019, the Company adopted ASC 606 using the modified retrospective approach.

### Revenue recognition
The Company adopted ASC 606 for the year ended December 31, 2019. Prior year revenue recognition follows ASC Topic 605, "Revenue Recognition". The following describes principal activities, separated by major product or services, from which the Company generates revenues.

Franchise fees - Initial franchise fees are collected with completion of a franchise agreement contract and are non-refundable. Franchise fees collected will be amortized on a straight-line basis over the life of the contract. Renewal fees are billed before the renewal date. Fees received for future license renewal periods are amortized over the life of the renewal period. At January 1, 2019, a cumulative adjustment was recorded to beginning retained earnings to reflect unamortized franchise fees as demonstrated in Note 6. For periods prior to adoption of ASC 606, revenue was recognized when the Company performed the obligations related to such fees, primarily the store opening date for initial franchise fees or the date the renewal was collected and considered effective.

Royalty fees and advertising assessments - Royalties and advertising fees, which are based on a percentage of franchise restaurant sales, are recognized as sales occur. Any reductions, including those offered as part of a new store development incentive, are recognized at the same time as the related royalty, as they are not separately distinguishable from the full royalty and advertising assessment rates. Franchise royalties and advertising fees are billed on a monthly basis. Royalty fees and advertising assessments are presented net of discounts and incentive programs.

*NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Revenue recognition (continued)
The Company offers incentive programs for franchisees including royalty discounts and other various support initiatives. Royalty fees are presented net of any incentives granted under these programs. For the years ending December 31, 2019, 2018, and 2017, royalty fees are presented net of incentives of $0, $3,969, and $19,705, respectively. Advertising assessments are presented net of incentives of $0, $2,852, and $7,125 for the years ending December 31, 2019, 2018, and 2017, respectively.

The adoption of ASC 606 revised the principal versus agent determination related to the advertising fee assessments. Under prior guidance, the Company was considered the agent in regards to the advertising funds and assessments collected in excess of expenses incurred were classified as deferred revenue. Upon adoption of ASC 606, the Company determined that the marketing and advertising activities do not represent a separate and distinct performance obligation for an individual franchise, but are part of the overall obligation to undertake activities to enhance the franchise brand for the benefit of all franchisees. At January 1, 2019, a cumulative adjustment was recorded to beginning retained earnings as demonstrated in Note 6.

Store sales - Company owned restaurants principally generate revenue from retail sales of food and are recognized when the products are provided to customers for dine-in or carryout or upon delivery. Store revenues are presented net of coupons/discounts.

Beginning in 2019, the Company created a loyalty program that is a spend-based program rewarding customers with points for purchases. Upon earning rewards from a set number of orders, the customer receives a reward which can be redeemed on future purchases within a one month expiration window. The potential redemption liability is tracked utilizing an online platform. Rewards may be redeemed at any store and thus, are not specifically allocated to any one store. Loyalty program rewards at December 31, 2019 are minor and difficult to specifically allocate to any franchise. Therefore, no liability has been recorded for the franchise store in the accompanying financial statements. Rewards are recognized at the store level upon customer redemption.

Exclusivity contract income - Marketing incentive income received from major distributors in the event that all franchisees agree to purchase a designated product. At management's discretion, the Company may contribute marketing incentives received to the advertising fund.

Other income - Other pre-opening services, such as training fees, have separate and distinct performance obligations from the franchise right; thus, the pre-opening fees collected will be recognized upon completion of the separate performance obligation.

Deferred revenue
Deferred revenue consists primarily of unamortized franchise fees that have been collected upon completion of a franchise agreement contract and the Company's estimate of unredeemed gift cards.

*NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Accounts receivable

Accounts receivable consist of franchisee royalty and advertising fees. Management reviews receivables regularly, charges off those deemed uncollectable and believes no reserve is necessary at this time. The risk of loss on accounts receivable is the balance owed at the time of default. The Company does not require collateral from its franchisees.

Notes Receivable

The Company provides financing to select franchisees for use in the development of their restaurants and for the purchase of restaurants from the Company or other franchisees. Notes receivable bear interest at fixed rates and, as applicable, are generally secured by the underlying assets purchased. Management reviews receivables and charges off those deemed uncollectable. Management believes no reserve is necessary at this time.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2019, 2018, and 2017.

Advertising - prepaid supplies

Prepaid supplies include advertising fund supplies maintained for purchase by the franchisees. The supplies include various promotional items for store advertising.

Store Inventory

Inventory consists primarily of food supplies that are valued at the lower of cost or net realizable value on a first - in, first - out basis.

Property and equipment

Property and equipment are stated at cost, with depreciation computed using the straight-line method over lives ranging from three to thirty-nine years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments exceeding $5,000 are capitalized.

Advertising

The Company expenses advertising and related costs as they are incurred. Combined advertising costs for the years ended December 31, 2019, 2018, and 2017 were $1,764,165, $1,654,470, and $1,498,700, respectively.

Advertising and related administrative expenses include management fees paid to the Company. Management fees collected by the Company for the years ended December 31, 2019, 2018, and 2017 were $66,390, $60,857, $71,922, respectively and are included in other income. The advertising expense and other income are presented gross on the statement of income to reflect administrative support related to the advertising and marketing activities.

## *NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

### Sales tax
The Company reports sales tax collected as a liability and excluded from revenue on a net basis. As sales tax is remitted, the payable is reduced. At December 31, 2019, 2018, and 2017, the accrued liability for sales tax was $6,796, $6,394, and $4,873, respectively.

### Compensated absences
Employees of the Company are entitled to paid sick leave and vacation. Generally employees are required to use their vacation by the end of the year. Management believes any remaining vacation would be minor. Sick leave and vacation are recorded when paid. Accordingly, no liability has been recorded in the accompanying financial statements.

### Income taxes
The Company, with the consent of its shareholders, has elected, under the Internal Revenue Code, to be treated as an S Corporation. In lieu of federal income taxes, the shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision for federal income taxes has been included in these financial statements. California law generally conforms to federal law except for a 1½% tax imposed on S-Corporation's earnings. The Company is subject to taxes in other states. Deferred income taxes have not been recognized in these financial statements, as the amount of deferred taxes is not considered material.

The Company adopted accounting standards relating to uncertainty in income taxes. There were no changes to the financial statements as a result of the adoption. The Company believes it has taken tax positions that meet the more-likely-than-not recognition threshold and, accordingly, no tax benefits or related penalties and interest have been recognized in the financial statements. The Company's policy is to classify interest and penalties associated with tax positions as a part of continuing operations.

The Company does not believe there will be any significant changes in the Company's tax positions in the next twelve months. Federal income tax returns are subject to examinations for three years, state income tax returns are subject to examinations for up to four years after their respective due dates.

### Franchise Store
The Company owns and operates a franchise store in Show Low, Arizona. Store sales, net of discounts are presented separately on the statement of income.

### Reclassifications
Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

## *NOTE 2 – CONCENTRATION OF CREDIT RISK*

The Company maintains cash with major financial institutions. Accounts are insured up to $250,000. The Company is subject to credit risks with respect to cash and cash investments held in various accounts in amounts in excess of the federally insured limit. As of December 31, 2019, 2018, and 2017, the Company held uninsured bank balances totaling $1,127,492, $1,340,411, and $1,516,429, respectively.

# PIZZA FACTORY, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019, 2018, and 2017

*NOTE 3 – PREPAID EXPENSES*

Prepaid expenses consist of:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Sponsorships | $ 143,325 | $ 136,500 | $ 130,000 |
| Franchise expansion | - | 16,891 | 20,750 |
| Prepaid rent | 8,200 | 8,200 | 8,200 |
| Loyalty program fees | - | 15,000 | - |
| Convention expenses | - | (2,500) | 7,000 |
| Credit for overpayment | - | 15,000 | - |
| Spokane Chiefs sponsorship | 54,300 | - | - |
| | $ 205,825 | $ 189,091 | $ 165,950 |

For the year ending December 31, 2018, the Company had received payments from sponsors in excess of the 2019 convention expenses.

In 2018, the Company entered into a 36-month contract with Punchh, Inc. for the purpose of creating a customer loyalty program through an online platform to begin in 2019. The contract required an upfront, one-time fee of $15,000 paid May 2018. Recurring fees, beginning in 2019, will include $115 per store per month. The Company currently franchises approximately 110 stores.

*NOTE 4 – NOTES RECEIVABLE*

Notes receivable consist of:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Promissory notes from various store locations, secured by equipment, with interest rates ranging from 0.0% to 5.0%, due through October 2020 | $ 54,130 | $ 82,027 | $ 111,724 |
| Non-interest bearing promissory note - franchisee, $2,500 payable monthly starting February 2019, due May 2019 | - | 10,000 | - |
| | 54,130 | 92,027 | 111,724 |
| Less current portion of notes receivable | (33,787) | (65,297) | (57,127) |
| Notes receivable, less current portion | $ 20,343 | $ 26,730 | $ 54,597 |

# PIZZA FACTORY, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019, 2018, and 2017

*NOTE 5 – PROPERTY AND EQUIPMENT*

A summary of property and equipment is as follows:

| | Asset Lives | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Leasehold improvements | 15-39 years | $ 188,771 | $ 161,406 | $ 161,406 |
| Machinery & equipment | 3-7 years | 91,968 | 108,159 | 108,159 |
| Furniture and fixtures | 7 years | 25,074 | 25,472 | 25,470 |
| Vehicles | 5 years | 82,781 | 110,275 | 145,145 |
| | | 388,594 | 405,312 | 440,180 |
| Less accumulated depreciation | | (266,553) | (286,062) | (291,740) |
| | | $ 122,041 | $ 119,250 | $ 148,440 |

Depreciation charged to income was $24,574, $29,190, and $41,507, for the years ended December 31, 2019, 2018, and 2017, respectively.

*NOTE 6 - DEFERRED REVENUE*

At January 1, 2019, a cumulative adjustment was recorded to beginning retained earnings to reflect the changes in deferred revenue related to deferred advertising revenue and unamortized franchise fees.

| | |
|---|---|
| Deferred advertising revenue | $ 752,174 |
| Unamortized franchise fees | (247,970) |
| Cumulative effect - adoption of ASC 606 | $ 504,204 |

| Deferred revenue consists of: | 2019 | 2018 | 2017 |
|---|---|---|---|
| Unredeemed gift cards | $ 43,922 | $ 24,954 | $ 7,443 |
| Deferred advertising revenue | - | 752,174 | 822,489 |
| Unamortized franchise fees | 288,488 | - | - |
| | $ 332,410 | $ 777,128 | $ 829,932 |

Upon adoption of ASC 606, the prior years deferred assessments were adjusted to retained earnings to reflect the cumulative adjustment from adoption. Advertising assessment fund activity prior to adoption of ASC 606 is reflected in the table below.

# PIZZA FACTORY, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019, 2018, and 2017

*NOTE 6 - DEFERRED REVENUE*

Under prior guidance, advertising assessment funds were accounted for separately. Net excess revenues (expenses) incurred each year were adjusted to the advertising assessment revenue. Accumulated excess revenues (expenses) were presented as deferred revenues earmarked for use in future promotional programs.

| | Under ASC 606 | Under Prior Guidance | | |
|---|---|---|---|---|
| | 2019 | 2019 | 2018 | 2017 |
| Deferred advertising revenue, beginning of year | $ 752,174 | $ 752,174 | $ 822,489 | $ 750,269 |
| Cumulative effect - adoption of ASC 606 | (752,174) | | | |
| Adjusted at 1/1/2019 | $ - | | | |
| Contributions and premiums collected | | 1,280,908 | 1,273,664 | 1,255,037 |
| Allocation of exclusivity contract income | | - | 68,543 | 133,293 |
| Interest income | | 167 | 347 | 378 |
| Advertising & related admin expenses | | (1,575,978) | (1,412,869) | (1,316,488) |
| Excess revenues (expenses) | | (294,903) | (70,315) | 72,220 |
| Deferred advertising revenue, end of year | | $ 457,271 | $ 752,174 | $ 822,489 |
| Advertising assessments, net | | | | |
| Contributions and premiums collected | $ 1,280,908 | $ 1,280,908 | $ 1,273,664 | $ 1,255,037 |
| Excess revenues (expenses) | - | 294,903 | 70,315 | (72,220) |
| Contributions and premiums | $ 1,280,908 | $ 1,575,811 | $ 1,343,979 | $ 1,182,817 |

The deferred advertising revenue includes an allocation of store credits for promotional items in the amount of $21,000 for the year ending December 31, 2018.

*NOTE 7 - LEASES*

The Company entered a lease agreement for the corporate office in September 2012. The lease term is $3,900 per month. The lease expires September 30, 2027 and includes an option to renew at the end of the term. Rent expense was $46,800 for the years ended December 31, 2019, 2018, and 2017.

The Company entered a lease in December 2016 for certain equipment under an operating lease that expires in 2019. The lease term is three years with a monthly payment amount of $1,119 plus any additional charges incurred. Rent expense was $13,911, $18,116 and $14,680 for the years ending December 31, 2019, 2018, and 2017, respectively.

The Company entered a lease for certain office equipment during December 2014. The lease term was three years and renewed for five years with a quarterly payment amount of $327 plus any additional charges incurred. Total rent expense under this lease was $1,322, $1,644 and $965, respectively for the years ending December 31, 2019, 2018, and 2017.

The Company entered an agreement for the Show Low, Arizona store which has been renewed through June 2021. Monthly rent is $4,300 through the life of the lease. Total rent expense under the lease was $51,600 for the years ending December 31, 2019, 2018 and 2017.

The Company has a month to month equipment lease agreement for the Show Low, Arizona store. Monthly rent expense is $251 plus any additional charges incurred beginning April 2014. Total rent expense under this lease for the year ending December 31, 2019, 2018, and 2017 was $3,428, $3,011 and $965, respectively.

| Future minimum lease payments are as follows: | Amount |
|---|---|
| 2020 | $ 99,639 |
| 2021 | 73,839 |
| 2022 | 48,039 |
| 2023 | 47,730 |
| 2024 | 46,800 |
| Thereafter | 128,700 |
| | $ 444,747 |

*NOTE 8 – LINE OF CREDIT*

The Company obtained a line of credit agreement with JPMorgan Chase Bank, NA which provides for maximum borrowings of $250,000, renewable annually. Interest is payable monthly and is computed at the Bank's LIBOR index rate plus 2.25%. The line is secured by all inventory, chattel paper, accounts receivable, equipment and general intangibles. The line of credit is also guaranteed by Mary Jane Riva and Robert R. Riva, Trustees of Bob and Mary Jane Riva Family Trust. There was no outstanding balance under this line at December 31, 2018 and 2017. The line of credit was not renewed in 2019.

*NOTE 9 - REVENUE RECOGNITION*

Revenue is disaggregated by major product line and geographical area. Royalty fees, advertising assessments and exclusivity contract income are based on percentage of restaurant sales to total reported by each franchise for the year. The following tables present information for the years ended December 31, 2019, 2018 and 2017:

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Nevada | California | Washington | Other | Total |
| Royalty fees, net of promotions | $ 247,010 | $ 2,036,130 | $ 225,640 | $ 196,681 | $ 2,705,461 |
| Advertising assessments, net | | | | | |
| Contributions and premiums | 116,950 | 964,010 | 106,830 | 93,118 | 1,280,908 |
| Exclusivity contract income | - | - | - | - | - |
| Franchise fees | 3,025 | 17,675 | 5,250 | 28,533 | 54,483 |
| Exclusivity contract income | 12,320 | 101,580 | 11,260 | 9,816 | 134,976 |
| Store sales, net of discounts | - | - | - | 843,315 | 843,315 |
| | $ 379,305 | $ 3,119,395 | $ 348,980 | $ 1,171,463 | $ 5,019,143 |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Nevada | California | Washington | Other | Total |
| Royalty fees, net of promotions | $ 233,910 | $ 1,921,890 | $ 209,020 | $ 182,925 | $ 2,547,745 |
| Advertising assessments, net | | | | | |
| Contributions and premiums | 123,390 | 1,013,830 | 110,260 | 96,499 | 1,343,979 |
| Exclusivity contract income | 6,290 | 51,710 | 5,620 | 4,923 | 68,543 |
| Franchise fees | - | 70,000 | - | 15,000 | 85,000 |
| Exclusivity contract income | 6,930 | 56,980 | 6,200 | 5,424 | 75,534 |
| Store sales, net of discounts | - | - | - | 782,389 | 782,389 |
| | $ 370,520 | $ 3,114,410 | $ 331,100 | $ 1,087,160 | $ 4,903,190 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Nevada | California | Washington | Other | Total |
| Royalty fees, net of promotions | $ 225,400 | $ 1,876,870 | $ 195,070 | $ 219,891 | $ 2,517,231 |
| Advertising assessments, net | | | | | |
| Contributions and premiums | 105,910 | 881,920 | 91,660 | 103,327 | 1,182,817 |
| Exclusivity contract income | 11,940 | 99,380 | 10,330 | 11,643 | 133,293 |
| Franchise fees | 13,000 | 23,000 | - | - | 36,000 |
| Training fees | - | 5,000 | - | - | 5,000 |
| Exclusivity contract income | 1,180 | 9,840 | 1,020 | 1,160 | 13,200 |
| Store sales, net of discounts | - | - | - | 766,621 | 766,621 |
| | $ 357,430 | $ 2,896,010 | $ 298,080 | $ 1,102,642 | $ 4,654,162 |

*NOTE 9 - REVENUE RECOGNITION (continued)*

Contract liabilities primarily related to deferred revenue. Changes in deferred advertising revenue for prior years is detailed in Note 6. The following table provides information about the Company's contract liabilities as of:

| | December 31, 2019 | January 1, 2019 | Change |
|---|---|---|---|
| Unredeemed gift cards | $ 43,922 | $ 24,954 | $ 18,968 |
| Unamortized franchise fees | 288,488 | 247,970 | 40,518 |
| | $ 332,410 | $ 272,924 | $ 59,486 |

Loyalty program obligations will be recognized as revenue as the points are redeemed or expire, which is expected to occur within the next year due to the terms as described in Note 1. Gift card liabilities will be recognized as restaurant revenues when the gift cards are redeemed.

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied at the end of the reporting period.

| Performance obligation by year | Franchise Fees |
|---|---|
| Year 1 | $ 30,150 |
| Year 2 | 29,350 |
| Year 3 | 29,258 |
| Year 4 | 28,600 |
| Year 5 | 27,142 |
| Thereafter | 143,988 |
| Total | $ 288,488 |

The Company previously recognized franchise fees in full and deferred advertising revenues. Under ASC 606, the Company amortizes franchise fees over the life of the contract and advertising fees are recognized as the underlying sales occur. The effect on the December 31, 2019, financial statements is as follows:

| | Under Prior Guidance | Under ASC 606 |
|---|---|---|
| Deferred revenue | $ 501,193 | $ 332,410 |
| Advertising assessments, net | | |
| Contributions and premiums | $ 1,575,811 | $ 1,280,908 |
| Franchise fees | $ 95,000 | $ 54,483 |

## *NOTE 10 – RETAINED EARNINGS*

Upon adoption of ASC 606, a cumulative adjustment of deferred advertising revenues was made to retained earnings. Retained earnings at December 31, 2019 is comprised of accumulated earnings and advertising funds as follows:

| | Accumulated Earnings | Advertising Fund | Retained Earnings |
|---|---|---|---|
| Balance at January 1, 2019 | $ 1,589,909 | $ - | $ 1,589,909 |
| Cumulative effect of adoption of ASC 606 | (247,970) | 752,174 | 504,204 |
| Adjusted balance at January 1, 2019 | 1,341,939 | 752,174 | 2,094,113 |
| Net income | 1,160,047 | (294,903) | 865,144 |
| Contributions | 30,000 | - | 30,000 |
| Distributions | (1,555,083) | - | (1,555,083) |
| Balance at December 31, 2019 | $ 976,903 | $ 457,271 | $ 1,434,174 |

## *NOTE 11 – RELATED PARTY*

The Company shareholders also own franchise stores. Royalty fees paid to the Company from shareholder owned stores totaled $194,831 , $192,937 and $131,517, respectively for the years ending, December 31, 2019, 2018, and 2017. Advertising fees paid to the Company during shareholder ownership of the stores totaled $105,613 , $97,305 and $62,997 for the years ending, December 31, 2019, 2018, and 2017, respectively.

Accounts receivable - related party consists of royalty fee and advertising fee assessments due to the Company from shareholder owned franchise stores.

## *NOTE 12 - SETTLEMENT AGREEMENT*

In 2016, the Company reached a settlement agreement in the amount of $355,000 with a franchisee in violation of the franchise agreement. The settlement stipulates that credits will be applied to the agreed upon amount if the franchisee pays $120,000 over a 48-month period beginning September 2016. Payments are $2,500 per month. If all payments are received timely, the credits will offset the agreed upon amount and it will be considered paid. Payments received in 2019, 2018, 2017 totaled $47,500, $30,000, and $32,500, respectively, and are included in other income.

## *NOTE 13 - PRIOR PERIOD ADJUSTMENT*

The accompanying financial statements for the year ended December 31, 2017 have been restated to properly present expenses as prepaid. The effect of the restatement was to increase prepaid expenses by $130,000, increase retained earnings by $32,500, and increase advertising assessment fund deferred revenues by $97,500.

## *NOTE 14 - SUBSEQUENT EVENTS*

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 15, 2020, the date the financial statements were available to be issued. The Company's management believes that all such subsequent events have been adequately considered in the financial statements and related notes.

In 2020, domestic and international economies face uncertainty related to the impact of the COVID-19 virus. The Company franchisees may be adversely affected by a lack of raw materials availability, interruptions in shipping and decrease in revenue. Management is currently evaluating the impact this will have on future operations.

SUPPLEMENTARY INFORMATION

**PIZZA FACTORY, INC.**

SUPPLEMENTARY INFORMATION

December 31, 2019, 2018, and 2017

SCHEDULE I
SCHEDULE OF FRANCHISOR OPERATING EXPENSES

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Salaries - officers | $ 183,300 | $ 187,000 | $ 187,200 |
| Salaries - office | 607,516 | 658,058 | 577,343 |
| Payroll taxes | 65,408 | 72,536 | 66,052 |
| Advertising and promotion | 160,099 | 214,725 | 123,519 |
| Bad debts | 666 | 17,599 | 143,932 |
| Bank charges | 343 | 641 | 568 |
| Contributions | 16,283 | 10,225 | 15,631 |
| Depreciation | 18,113 | 17,568 | 28,480 |
| Dues and subscriptions | 2,750 | 2,568 | 2,750 |
| Franchise show expense | - | 7,137 | - |
| Franchise operational materials | 18,324 | 13,804 | - |
| Insurance | 93,479 | 87,373 | 52,417 |
| Lease expense | 15,233 | 19,760 | 15,644 |
| Legal and accounting | 437,654 | 216,638 | 188,574 |
| Licenses and fees | 11,973 | 14,724 | 19,495 |
| Miscellaneous | 9,902 | 5,876 | 7,098 |
| Nutrition analysis | 748 | 1,037 | 6,221 |
| Office expense | 25,917 | 18,792 | 20,934 |
| Outside services | 57,623 | 15,745 | 21,813 |
| Postage and shipping | 4,254 | 6,136 | 3,733 |
| Product testing | - | 1,601 | 143 |
| Program fees | 13,786 | 43,386 | 30,432 |
| Public relations | - | 34,038 | 41,867 |
| Rent | 46,800 | 47,416 | 46,800 |
| Repairs and maintenance | 7,420 | 16,398 | 19,982 |
| Convention expense | 29,824 | 8,211 | 66,532 |
| Staff education and training | 44,096 | 21,337 | 24,400 |
| Store décor | 23,090 | 1,185 | 11,580 |
| Storage | 2,973 | 2,169 | 3,724 |
| Supplies | 1,984 | 2,379 | 1,745 |
| Telephone | 10,068 | 11,715 | 11,839 |
| Travel and accommodation | 86,917 | 131,833 | 94,983 |
| Utilities | 6,563 | 5,891 | 6,545 |
| **OPERATING EXPENSES** | $ 2,003,106 | $ 1,915,501 | $ 1,841,976 |

## PIZZA FACTORY, INC.

SUPPLEMENTARY INFORMATION

December 31, 2019, 2018, and 2017

SCHEDULE II
SCHEDULE OF STORE OPERATING EXPENSES

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Advertising | $ 28,088 | $ 26,876 | $ 26,193 |
| Contributions | - | - | - |
| Cost of goods sold | 217,799 | 195,600 | 211,998 |
| Depreciation | 6,461 | 11,422 | 10,627 |
| Health insurance | 21,469 | 24,855 | 19,531 |
| Insurance | 6,262 | 8,640 | 3,026 |
| Lease expense | 3,428 | 3,011 | 3,011 |
| Legal and accounting | 2,700 | 2,700 | 2,925 |
| Licenses and fees | 1,245 | 1,320 | 1,320 |
| Merchant fees and bank charges | 16,567 | 12,846 | 13,842 |
| Miscellaneous expense | - | - | 2,481 |
| Office expense | 4,098 | 2,868 | 3,191 |
| Outside services | 2,597 | 2,796 | 2,711 |
| Postage and shipping | 163 | 123 | 137 |
| Payroll taxes | 32,509 | 19,552 | 21,148 |
| Rent | 51,600 | 51,600 | 51,600 |
| Repairs and maintenance | 5,324 | 5,754 | 13,003 |
| Supplies | 16,874 | 13,015 | 15,411 |
| Telephone | 4,401 | 4,153 | 3,068 |
| Travel and accommodation | 57 | 2,311 | 1,786 |
| Uniforms | - | 684 | - |
| Utilities | 16,596 | 17,927 | 17,322 |
| Wages | 242,041 | 245,963 | 226,169 |
| **STORE OPERATING EXPENSES** | $ 680,279 | $ 654,016 | $ 650,500 |

# Exhibit D
# Franchise Agreement and Exhibits

WE TOSS'EM,
THEY'RE AWESOME!®

**FRANCHISE AGREEMENT FOR PIZZA FACTORY FRANCHISE**

**EXHIBIT "D"**

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<u>EXHIBITS</u>

## FRANCHISE AGREEMENT

AGREEMENT made this ________ day of ______________, 20_____, by and between PIZZA FACTORY, INC., a California corporation, with its principal place of business located at 49430 Road 426, Suite D (PO Box 989), Oakhurst, California, 93644, hereinafter referred to as either PIZZA FACTORY or FRANCHISOR, and ________________________________________ ____________________, of ________________________________________________, hereinafter referred to as FRANCHISEE.

## RECITALS

Franchisor and Franchisee mutually acknowledge the following:

## THE PROGRAM

Franchisor is the owner of PRODUCT DEVELOPMENT AND SALES PROGRAM, hereinafter referred to as the "Program," which Program includes a special design and color scheme of building, furniture, equipment, layout, food formulae and specifications for designated food products, methods of inventory and operation control, bookkeeping and accounting procedures, and a manual of business practices and policies which may be modified from time to time.

## PROPRIETARY RIGHTS

Franchisor is the sole and exclusive owner of all proprietary and other property rights and interests in and to the trade names and/or trademarks "Pizza Factory," "We Toss 'Em - They're Awesome," "Think Pizza," the Pizza Tosser, the Pizza Factory logo (a picture of which appears on the cover page), "Is It The Sauce Or Is It The Dough?" and all other trademarks and service marks used in connection with said Program, including but not limited to all those trademarks, service marks, and rights residing in the appearance of buildings, signs, and portions thereof by which establishments franchised to adopt to use said names and marks and the products therefrom are known and identified as well as those names and marks which may be modified or added by Franchisor during the term of this Agreement or any renewal thereof. Such rights also include certain food products, food fabrication methods, and service processes specifically developed for use exclusively by those establishments franchised to adopt use of said products, methods, and processes.

## PROMOTION AND DEVELOPMENT

Franchisor has promoted and developed said Program and is entitled to franchise its use by others.

## FRANCHISEE'S ACKNOWLEDGMENT

Franchisee acknowledges Franchisor's rights in the said Program and desires to acquire the right to adopt and use the said Program and names and marks at the location referred to below. For and in consideration of the mutual covenants and agreements hereinafter set forth, it is mutually agreed and covenanted as follows:

## ARTICLE 1 GRANT AND USE OF FRANCHISE

### Grant of Franchise

**Section 1.01.** Subject to the terms and conditions contained herein, Franchisor hereby grants to Franchisee and Franchisee hereby accepts from Franchisor, the right, franchise, and license:

(a) To use Franchisor's name ("Pizza Factory"), slogan ("We Toss 'Em - They're Awesome"), and other trade or service marks authorized by Franchisor exclusively in the operation of a food service business ("the Franchise Business") at the location designated in Section 1.04 (b), below ("Premises"), or at any approved relocation thereof;

(b) To use Franchisor's Program of operation and method of doing business at the Franchise Business exclusively during the term of the Franchise granted hereby;

(c) To use the food products, menus, and recipes provided and developed by Franchisor exclusively in the conduct of the Franchise Business at the Premises.

(d) During the term of the Franchise, or any renewal thereof, Franchisee shall not use any other name, marks, methods of operation, menus, recipes, or products in the operation of the Franchise Business except those authorized by this Agreement or in writing by Franchisor. Franchisee shall not use said names, marks, methods of operation, menus, recipes, or products for any purpose other than in the operation of or marketing of the Franchise Business.

(e) If Franchisee is a limited liability entity of any type whatsoever, it agrees to modify its name, if necessary, by deleting from its name any of Franchisor's registered trade names, trademarks, or service marks which must be completed within 30 days of the execution of this Agreement.

### Initial Term of Franchise

**Section 1.02.** Unless earlier terminated for good cause as hereinafter provided, the franchise granted under and pursuant to the terms of this Agreement shall continue in full force and effect for a period of 10 years from the date hereof. Franchisee shall operate the Franchise Business during the initial and any continued or extended term of the Franchise according to the terms and provisions of this Agreement or any renewal or amended agreement.

**Renewal Terms**

**Section 1.03.** Provided that Franchisee shall fully, faithfully, and timely carry out and perform all of its obligations under this Agreement, Franchisee may renew the Franchise granted hereunder for one successive term of 10 years upon the expiration of the initial term. A $5,000.00 renewal fee is required for this renewal. Franchisee may renew the franchise by executing the renewal agreement and paying the required renewal fee, unless the Franchisee has received Franchisor's written notice of intention not to renew at least 180 days prior to the expiration of this Agreement. Such notice must state the reasons for non-renewal and the effective date of non-renewal or expiration, and it must be delivered personally to Franchisee or sent by registered or certified mail. The Franchisor may refuse to renew or extend the term of the franchise if any of the following are applicable except if otherwise prohibited by law:

(a) The Franchisee is in default under any provision of the franchise agreement, or under his or her lease of the Franchise Premises;

(b) The Franchisee's lease or right to possession of the Franchise Premises has terminated, or will terminate, prior to the expiration of the proposed optional term of the franchise, and the Franchisee has no right to renew the lease or fails or refuses to exercise any right to renew it;

(c) The Franchisor is the sublessor of the Franchise Premises and can not renew its lease on reasonable terms prevailing in the area at the time;

(d) The Franchisee has failed to pay, within 30 days of the date due, any expense incurred related to the operation of the Franchise Business;

(e) The Franchisee refuses to execute a renewal franchise agreement which shall include all provisions of the Franchise Agreement then being utilized by Franchisor provided, however, that the fee for said renewal and the term of the franchise and renewal thereof shall be controlled by this Agreement;

(f) In the event Franchisee is a corporation, limited liability company, limited partnership or of other limited liability form, the refusal of its principal shareholders, members, limited partners or other principal owners to execute a personal guarantee of performance of the Franchisee's obligations under the renewal Franchise Agreement; or

(g) If three or more defaults have been issued to Franchisee during any 12 month period during the last five years of the initial term.

Renewal of the franchise shall be accomplished by the execution by Franchisor and Franchisee of Franchisor's then current form of Franchise Agreement and all other documents then customarily used by Franchisor in the grant of franchises except the term and any applicable renewal term will be for the renewal term(s) provided for in the original Franchise Agreement.

**Location and Voluntary Relocation**

**Section 1.04.** (a) Upon execution of this Agreement, Franchisee shall find a location at which to operate Franchisee's Pizza Factory restaurant which complies with the Site Selection Guidelines ("Guidelines") Franchisor will provide to Franchisee. Upon locating any proposed site at which Franchisee shall operate the Franchise Business, Franchisee shall promptly advise Franchisor who will inspect said proposed site for the purpose of confirming that it substantially complies with the Guidelines. Franchisee shall identify a site acceptable to Franchisor and either purchase that site ("Premises") or secure it with a lease which also complies with the Guidelines, by not later than the first anniversary of the date of this Agreement. Termination pursuant to this provision shall be deemed a termination of the Franchise for all purposes within the meaning of all provisions governing the post-termination rights, duties and obligations of the parties including, but not limited to, Section 3.03, 4.09, 4.16, 5.01, 5.02, 5.03, 9.03, 9.04, and all provisions of Article 10 and Franchisee shall continue to be bound by those provisions.

(b) Upon Franchisee selecting a site to serve as the Premises for the Franchise Business which substantially complies with the guidelines provided for in the Site Selection Guidelines, and either purchases that site or secures it with a lease which also substantially complies with the Guidelines, Franchisor and Franchisee agree that this Agreement shall be amended by inserting the location/address of said site and Premises on the line set out below whereupon Franchisor shall provide to Franchisee a copy of the page with said location/address inserted to either attach to this Agreement or insert into the Agreement. The Agreement will be deemed amended upon Franchisor serving said attachment/replacement page(s) to Franchisee in compliance with Section 10.08.

(c) In the event that, in Franchisor's judgment, there is a change in character of the location sufficiently detrimental to its business potential to warrant relocation and upon request by Franchisee, Franchisor will grant permission for the relocation of the Franchise Business to a site and, if applicable, subject to lease terms which substantially complies with the Site Selection Guidelines then in effect for new franchisees. Any such relocation shall be at Franchisee's sole expense and subject to the conditions set forth in Section 3.04. Upon relocation outside the exclusive area designated in Section 1.05, below, Franchisee shall be accorded a new exclusive area as determined by Franchisor in its sole discretion. In the event of relocation, Franchisee must comply with all requirements and specifications for opening a new Pizza Factory restaurant in effect as of the date of the relocation and any such relocation must be completed and the Franchise Business opened for business within 120 days of closing the Franchise Business at the Premises. Prior to any actual physical relocation of the Franchise Business from the Premises, Franchisee will execute an addendum to this Agreement modifying the location of the Franchise Business set forth in Section 1.04 (b) or any amendment thereto and execute an addendum to the General Security Agreement reflecting the change in location of the collateral as described in Section 4.19 and Exhibit 1, attached hereto.

(d) Franchisor and Franchisee agree that Franchisor provides no assurances, warranties, or guarantees that Franchisee will be successful at the location selected by Franchisee notwithstanding any other language in this Agreement which could be interpreted otherwise. Franchisor's confirmation of substantial compliance with the Guidelines is strictly limited to the items set forth in the Guidelines and does provide any advice or recommendation pertaining to site selection and terms of purchase or lease of the site except those expressly stated in the Guidelines.

## Exclusive Area

**Section 1.05.** In order to facilitate the successful development of the Franchise Business and to protect Franchisee's investment therein, Franchisor hereby grants to Franchisee the exclusive right to operate a Pizza Factory restaurant within a three (3) mile radius of the Premises. During the term of this Agreement, neither Franchisor nor any other of its franchisees shall be authorized to establish a Pizza Factory restaurant within said exclusive area; however, this does not restrict

Franchisor or any of its franchisees from delivering within or soliciting customers located within said three (3) mile radius of the Premises.

## ARTICLE 2 FRANCHISE PAYMENTS

### Initial Franchise and Training Fee

**Section 2.01.** In consideration of the right, franchise, and license granted by Franchisor to Franchisee and the services to be rendered to Franchisee by Franchisor under this Agreement, Franchisee hereby agrees to pay to Franchisor an initial franchise fee of $20,000.00 for the Pizza Factory Franchise granted in Section 1.01 hereof, which includes an initial training program for up to two persons and an additional charge of $3,500.00 for each additional person to attend the initial training program at the same time. Except as provided in this Section, no portion of the franchise fee will be refunded once paid, although Franchisor will refund any unused portion of any payment made for additional personnel to attend the initial training program. If, on or before the first anniversary of the date of this Agreement, Franchisee has not located a site for Franchisee's Pizza Factory restaurant that is acceptable to Franchisor, then Franchisee may thereafter terminate this Agreement upon written notice to Franchisor. To be effective, such notice must be received prior to Franchisor's acceptance of a site proposed by Franchisee and include an executed general release of claims against of Franchisor, its officers, directors, employees, representatives and its affiliates, in a form prescribed by Franchisor. Upon receipt of such notice and executed release, Franchisor will refund an amount equal to the initial franchise fee paid by Franchisee less $10,000.

### Royalty Based on Net Sales

**Section 2.02.** In consideration of the right, franchise, and license granted by Franchisor to Franchisee and the services to be rendered to Franchisee by Franchisor under this Agreement, Franchisee hereby agrees to pay to Franchisor a royalty equal to 5% of Net Sales (as defined below). Franchisee shall pay said royalty by automatic electronic transfer made by Franchisor from Franchisee's account for each month on or about 30 days after the end of the month for which payment is due. Franchisor shall provide to Franchisee an invoice based upon the Net Sales received during the prior month obtained by Franchisor electronically or, when necessary, by other means. The sales figures on said invoice, and the royalty due based upon those sales, will be deemed certified by Franchisee as being true and correct unless Franchisee provides Franchisor with notice of any claim of error within 5 days of said invoice being mailed or electronically transmitted to Franchisee. If Franchisor is unable to access said Net Sales information for any reason, Franchisor may calculate the royalty due based upon estimated sales as determined according to the provisions of Section 4.17(d) hereof. A service fee as provided for in Section 4.17(d) will be added if Franchisee fails to make the payment as provided for herein for each month that said monthly royalty charge remains unpaid and which shall be paid by electronic transfer. The bank information necessary to allow for electronic transfer shall be provided to Franchisor no less than 30 days prior the opening date of the Franchise Business and within 48 hours of any change of that bank information. "Net Sales" means the total of all revenues received or receivable as payment, whether in cash, for credit or barter or received as donation, or other means of exchange (and, if for credit or barter, whether or not payment is received therefor), on account of any and all goods, merchandise, services or products sold or provided in or from the Franchise Business, including, arcade and merchandise sales, catering, service and delivery charges whether or not Franchisor has authorized such goods or services to be offered and sold, including; (a) revenues from sales of any nature or kind whatsoever, derived by Franchisee or by any other person or entity in or from the Franchise Business; (b) revenues from sales of all products or services at the Premises, whether in compliance or in contravention of this Agreement; and (c) the proceeds of any business interruption insurance, after the satisfaction of any applicable deductible (but assuming the full gross revenues achievable by Franchisee). Notwithstanding the foregoing, "Net Sales" shall exclude the following: (i) sums representing sales taxes collected directly from customers by Franchisee in the operation of the Franchise Business, and any sales, value added or other tax, excise or duty charged to customers which is levied or assessed against Franchisee by any Federal, state, municipal or local authority, based on sales of specific goods, products, merchandise or services sold or provided at or from the Franchise Business, provided that such taxes are actually transmitted to the appropriate governmental authority; (ii) tips or gratuities paid to employees; and (iii) proceeds from isolated sales of furniture, fixtures and equipment (other than inventory) not constituting any part of the products offered for resale at the Franchise Business nor having any material effect upon the ongoing operation of the Franchise Business required under this Agreement.

**Technology Fee**

**Section 2.03.** Each month, together with and in the same manner of payment as the royalty fee, Franchisee shall pay to Franchisor, Franchisor's then-current fee (the "Technology Fee") to defray the costs and expenses incurred by Franchisor in connection with the evaluation, testing, adoption (including the preparation and negotiation of contracts), implementation, and use of various items of hardware and software and other items of technology (whether now or hereinafter created or devised) that may be or are used by Franchisor and/or franchisees. Franchisor may, on not less than 30 days prior written notice, change the Technology Fee from time to time to reflect the costs and expenses that Franchisor anticipates incurring from time to time.

**Sales Tax and Other Taxes and Fees**

**Section 2.04.** In addition to all other payments under this Agreement, Franchisee agrees to pay Franchisor or Franchisor's affiliates immediately upon demand: (a) all sales taxes, trademark license taxes, and any other taxes imposed on, required to be collected, or paid by Franchisor or Franchisor's affiliates (excluding any corporate income taxes imposed on Franchisor or Franchisor's affiliates) based on Franchisor or Franchisor's affiliates having furnished services or products to Franchisee or collected any fee from Franchisee; (b) all amounts Franchisor advances, pays, or becomes obligated to pay on Franchisee's behalf for any reason; and (c) all amounts Franchisee owes Franchisor or Franchisor's affiliates for products or services that Franchisee purchases from Franchisor or Franchisor's affiliates.

## ARTICLE 3 FRANCHISOR'S CONTINUING OBLIGATIONS

**Knowledge and Experience**

**Section 3.01.** Franchisor agrees to make available to Franchisee the benefit of its knowledge and experience in the installation of a Pizza Factory restaurant.

**Building Plans and Specifications**

**Section 3.02.** After the Premises for operation of the Franchise Business has been secured as required pursuant to Section 1.04 (a) and (b), Franchisor agrees to assist Franchisee in obtaining all initially required plans and specifications for the building, equipment, furnishings, decor, layout, menu and menu display, and all signs for or identified with Pizza Factory restaurants, together with advice and consultation concerning them.

**Operations Brand Standards Manual**

**Section 3.03.** Franchisor agrees to provide Franchisee with a copy of the Operations Brand Standards Manual, hereinafter referred to as "the Manual," during the initial training program. The Manual is designed to insure uniform and high standards of quality, service, and appearance among all Pizza Factory restaurants in order to create and maintain goodwill and widespread consumer acceptance; therefore, said Manual and all amendments thereto, as made from time to time, are incorporated into and made a part of this Agreement, as if fully set forth herein. Franchisee agrees that upon termination of the Franchise or, if applicable, expiration or termination of this Agreement, Franchisee will immediately return to Franchisor the Manual and all amendments thereto and any copies thereof in the possession of Franchisee or any or Franchisee's principals, agents, employees, or others related to or affiliated with Franchisee.

**Advisory and Relocation Services**

**Section 3.04.** Franchisor agrees to render advisory services regarding the operation of the Franchise Business. Such services include, but are not limited to, advice with respect to the following: Preparation of food products in accordance with the Manual, management of food supplies, styles and type of service, operation of the restaurant, suggested staffing plans, and the training of Franchisee and Franchisee's management employees in the operation of the Franchise Business. In the event the location of the Franchisee's Pizza Factory restaurant must be changed, Franchisor will assist Franchisee by providing similar services as necessary to insure compliance with all requirements and specifications required to establish a new Pizza Factory restaurant at the time of relocation. These relocation advisory services are mandatory and the amount of time and effort provided by Franchisor is determined by Franchisor in its discretion on a case by case basis. Franchisee agrees to compensate Franchisor for such services at the rate then charged for such services (currently $150.00 per hour or $500.00 per day for field work and $125.00 for administrative services) and reimburse Franchisor for all necessary travel and other expenses related to providing those services.

**Inventory and Supplies**

**Section 3.05.** Franchisor shall designate the inventory and supplies to be purchased and used by Franchisee in the operation of the Franchise Business. Franchisor shall also designate the suppliers from which Franchisee is required to purchase certain designated products and provide Franchisee the information necessary for the Franchisee to arrange for such purchases. Franchisor may change or modify the specific brand, type, model or any food or supplies required to be utilized by

Franchisee and/or change designated suppliers of said items which Franchisee shall be required to purchase and use in the operation of the Franchise Business upon 30 days written notice from Franchisor. Regarding the items for which Franchisor has not designated one or more approved suppliers, Franchisor agrees to assist Franchisee in selecting suppliers for such items as well as equipment, decor items, etc. If Franchisor has not designated a supplier for a particular product, service or other item, Franchisee must still purchase and use the specific brand/model/type of item designated by Franchisor.

**Advertising and Public Relations**

**Section 3.06.** Franchisor maintains and administers an advertising fund ("Fund") which is comprised of contributions from all franchisees that are required to contribute to the Fund. (See Section 4.12.) Franchisor shall utilize said sums only for advertising, marketing and similar purposes and none of said sums shall be utilized for advertising the sale of franchises. Franchisor shall provide advertising and marketing materials to Franchisee and shall otherwise provide advertising and marketing services through the utilization of third-party services, including service providers, software, advertising agencies, the implementation of marketing programs and the placement of advertising on behalf of the entire Pizza Factory system. Franchisor may compensate itself from the Fund for related services, such as expenses incurred with marketing programs (including licensing software), independent advertising agencies, the preparation of advertising and marketing information and materials, and the distribution of such (which may also include providing access to the same) to the Franchisees. Although the Franchisee may develop advertising materials at Franchisee's own cost, Franchisor must approve the advertising prior to the use of said materials in advance and in writing. Franchisor will also maintain and administer any local and/or regional advertising funds formed in the future which shall also be subject to the foregoing provisions. Franchisor shall promptly provide an accounting of the Fund to Franchisee upon request and, at the option of the Franchisee, a copy of the annual financial statement for the Fund; however, Franchisor will only provide such information pertaining to any period within two years of the request. Funds collected but unused during any fiscal year shall remain in the Fund and used for any purpose allowed by this section in subsequent years. Franchisor may establish an advisory board consisting of franchisees who, in the sole opinion of Franchisor, are qualified to provide Franchisor with advice and recommendations regarding advertising and the administration of the Fund.

## **Field Consultation**

**Section 3.07.** Franchisor agrees to provide consultation and advice by Franchisor's field representatives. Such consultation may be made either through personal visits from such field representatives or by telephone, mail, or otherwise, as may from time to time be reasonably required.

## **Training**

**Section 3.08.** Franchisor agrees to provide a training program to Franchisee which will consist of the following:

(a) The Franchisor will provide an initial training program of at least 250 hours of training over a 60 day period for the Franchisee and/or persons to be designated by the Franchisee. The training will take place at the Franchisor's main office in Oakhurst, California, or such other location as may be designated by the Franchisor. The training program will cover subjects which are relevant to the operation and management of a Pizza Factory restaurant, such as accounting, bookkeeping, staffing recommendations, customer relations, etc. At least one of the Franchisee's major principals must attend and satisfactorily complete the entire initial training program. The training will consist of observation of and participation in the day-to-day operation of a Pizza Factory restaurant with the guidance and assistance of trained Pizza Factory personnel. At the option of the Franchisor, the Franchisor will arrange for and Franchisee and/or the principal of Franchisee who attended the initial training program shall attend an additional training period, the length to be determined by the Franchisor, at an existing and operating Pizza Factory restaurant in California, or such other location as designated by the Franchisor.

(b) The training program is to be conducted at a time designated by the Franchisor, within 120 days of the scheduled opening of the Franchisee's business. If more than 120 days has elapsed between Franchisee and/or the designated in-store manager completing the training program and the opening of the Franchise Business, Franchisor may require that Franchisee and/or designated in-store manager complete additional training prior to opening the Franchise Business pursuant to Section 3.08 (e).

(c) The charge to the Franchisee for the initial training program is included in the initial franchise fee for up to two persons to attend. One of the persons who attend must be either the Franchisee (or one of them if jointly owned) or one of the principal owners of the Franchise. Franchisee shall pay to Franchisor $3,500.00 for each additional person sent to the training program with the Franchisee or one of its principals. Said training fee for additional personnel is due prior to commencement of the training program. The Franchisee shall pay to Franchisor $500.00 per day for the first two persons who attend the optional additional initial training period and $250.00 for each additional person. The Franchisee is responsible for the travel and living expenses of the person(s) who attend the training program. If this Agreement is terminated or canceled, Franchisor will refund to Franchisee that portion of the training fee for additional personnel remaining based upon a calculation of $150.00 per hour for the training already provided or a maximum of $3,500.00 for any additional persons. Food, lodging, and travel expense is not included in the training fees and is solely the responsibility of the Franchisee.

(d) The initial training program is mandatory for the Franchisee or one of Franchisee's principal owners (shareholder, managing member, general partner, etc.), unless the Franchisee is already a Franchisee of an existing and operating Pizza Factory restaurant. If during the term of the franchise or any renewal or extension thereof Franchisee designates someone who has not satisfactorily completed the initial training program as the full time on-premises manager of the Franchise Business, then the person so designated must complete the initial training program provided by Franchisor at Franchisee's expense prior to assuming the duties as on-premises manager. If the non-Franchisee, non-principal on-premises manager or any other principal or employee of Franchisee and designated by Franchisee does not attend the initial training program with Franchisee or one of Franchisee's principal owners as one of the two persons covered by the Franchise fee, the charge for providing the complete training program for the on-premises manager attending either alone or with an additional person will be the amount then being charged for that training. Food, lodging, and travel expense is not included in the training fees and is solely the responsibility of the Franchisee.

(e) If after completion of the initial training program and any time during the franchise term or any renewal thereof it is determined by the Franchisor, in its sole judgment, that the Franchisee/principal owner and/or Franchisee's on-premises manager lacks sufficient knowledge, understanding or ability with respect to any aspect of the Franchise Business, the Franchisor may require, upon reasonable notice, that the Franchisee or the on-premises manager complete additional training. The costs of training will be the amount then charged by the Franchisor for such training and the Franchisee shall be responsible for all costs of travel, lodging, and meals.

Failure to successfully complete such additional training within 30 days of notice by Franchisor shall constitute a default of Franchisee's obligations under this Agreement.

(f) During the first week Franchisee's Franchise Business is open, Franchisor will provide to Franchisee no less than a two person training crew (or one person in cases of transfer/assignment of existing stores) who will provide Franchisee and his/her/its management employees with continuing training and advisory services during said first week of operation except for transfers of existing stores, only one trainer will also be provided by Franchisor to work with the new Franchisee during the first full week of operation. The Franchisor, at its sole judgment, may require the training crew to remain at the Franchise Business for additional time beyond the first week to assist Franchisee. Franchisee will be charged that additional assistance at the same rate as field work for Relocation Services then being charged.

## ARTICLE 4 OBLIGATIONS OF FRANCHISEE

### Franchise Business Premises

**Section 4.01.** Franchisee agrees that the building and improvements on the Premises will be constructed and/or improved by Franchisee at Franchisee's expense in strict accordance with the plans and specifications prepared by Franchisee and approved in writing by Franchisor pursuant to Section 3.02 hereof and shall be decorated, furnished, equipped, and maintained in strict accordance with said plans and specifications and any applicable provisions of the Manual. If the Premises are leased, Franchisee must secure and maintain a lease with an initial term of no less than five (5) years which provides for option(s) to renew the term for a total of an additional five (5) years or to a date no earlier than the expiration of the term of this Franchise. Franchisee may not enter into a lease for or operate the Franchise Business at a location leased for a term, including options, other than as specified above except with the express, written consent of Franchisor. Franchisee must provide Franchisor a copy of all purchase agreements, leases, modifications, and renewals which must be approved by Franchisor in writing prior to signing by Franchisee for the limited purpose for Franchisor to confirm that the terms of said document(s) comply with the Site Selection Guidelines and the provisions of this Agreement.

### Operation of Premises

**Section 4.02.** (a) Franchisee shall commence operation of the Franchise Business using the Franchise Business trademarks, trade name, and other indicia, immediately after the Premises in which the Franchise Business is located are ready for occupancy and shall operate the Franchise Business according to the terms and provisions of this Agreement, the Manual and any updates thereto, and to continue to operate on the same days and during the business hours specified herein (except when the Premises are untenantable as a result of fire or casualty or similar circumstances beyond Franchisee's control). Franchisee's obligations to operate the Franchise Business according to the terms and provisions of this Agreement shall continue throughout the term of the Franchise subject to the provisions of this Agreement. Franchisee further agrees to commence operation of and thereafter operate the said Premises in a quiet, dignified, and respectable manner, treat its employees and customers with courtesy and respect, all in strict accordance with the business standards and practices set forth in the Manual as it presently exists or as it may be amended from time to time in the future. Franchisee also agrees to maintain sufficient supplies and employ sufficient help at such Premises to operate the same at maximum capacity and with maximum efficiency so as to maximize the revenues and profits therefrom.

(b) The Franchisee shall appoint or designate, prior to opening, an on-premises manager for the Franchise Business who is required to work at the Premises an average of 40 hours per week or more. The Franchisee may designate as on-premises manager himself/herself or, if Franchisee is a business entity, a principal of Franchisee or a person who has no ownership interest in the Franchise. Prior to opening the Franchise Business, any person designated to act as the on-premises manager is required to have satisfactorily completed Franchisor's initial training program described in Section 3.08. However, if the position of on-premises manager becomes vacant for any reason either before or after the Franchise Business is opened, including if the on-premises manager is terminated or otherwise not on site for ten consecutive days or is absent for more than ten days during any 30 day period, then Franchisee may appoint or designate and, at Franchisor's request, shall appoint or designate a person to act as the temporary on-premises manager with the approval of the Franchisor. In the event the position of a permanent on-premises manager remains vacant for more than 60 days, then upon ten days written notice by Franchisor, Franchisee is required to appoint a new on-premises manager. Each on-premises manager appointed by Franchisee must complete Franchisor's full training program pursuant to Section 3.08 within 120 days after the date of the notice or the date of the appointment, whichever occurs first, all at Franchisee's cost and expense. Completion of the training program by a new on-premises manager, regardless of the reason for necessitating said training, is the responsibility of the Franchisee and shall be at Franchisee's sole cost and expense.

(c) Prior to opening the restaurant Franchisee must satisfy all requirements necessary for opening as set forth in this Agreement and as set forth in the Opening Checklist attached hereto as Exhibit 3, and obtain the final, written approval of Franchisor. Franchisor will promptly review compliance with all the terms and provisions of this Agreement and shall issue its approval if it determines that Franchisee is in compliance. Upon approval by Franchisor, Franchisor and Franchisee shall select a mutually agreeable date to open the Pizza Factory restaurant for business which shall be on a day other than a Friday or Saturday.

(d) Failure to comply with any demand of the Franchisor with respect to any of the obligations set forth in this Section 4.02 within 30 days after being notified thereof shall constitute grounds for termination of the Franchise at the discretion of the Franchisor pursuant to Article 9 of this Agreement.

(e) Franchisee authorizes representatives of the Franchisor to communicate directly with the on-premises manager regarding any matter pertaining to the Manual of the Program. Franchisee does not authorize Franchisor to supervise or direct the actions of the on-premises manager or any other employee of the Franchisee and nothing in this provision or in this Agreement shall be construed otherwise.

**Business Hours**

**Section 4.03.** Franchisee agrees to operate the Franchise Business seven days per week throughout the year and the Franchise Business must be open to the public and operating at least during the hours from 11:00 A.M. to 10:00 P.M., Monday through Sunday, or such other hours as may from time to time be specified by Franchisor or such other hours as may be allowed by Franchisor in writing on a case by case basis. The Franchise Business only may be closed on the following holidays: Easter, July 4th, Thanksgiving, and Christmas, unless otherwise expressly permitted in writing by the Franchisor.

**Operations Brand Standards Manual**

**Section 4.04.** Franchisee agrees to maintain a high and uniform standard of cleanliness and sanitation in the operation of the Franchise Business and to conduct the Franchise Business in accordance with the standards, procedures, and methods of the Program and policies established and prescribed by or as modified by Franchisor from time to time and to comply with all laws, ordinances, and regulations relating to the operation of the Franchise Business, in order to insure the highest quality of food products and services to the consuming public.

**Inspection of Premises and Products**

**Section 4.05.** Franchisee agrees to permit Franchisor to inspect Franchisee's entire Premises (which includes the right to speak with Franchisee's employees) at any time during regular business hours, without notice, and to obtain and test specimen food items and ingredients and to observe all aspects of the conduct of the Franchise Business by Franchisee. Franchisee further agrees to correct any deficiencies within 30 days of receipt of notice of a violation. Nothing in this provision requires Franchisor to provide Franchisee with a "Notice of Violation" prior to issuing a Notice of Default as provided for in Section 9.02 or otherwise affects the ability of Franchisor to terminate the Franchise without Notice of Default as provided for in Section 9.01.

**Products, Services, and Supplies**

**Section 4.06.** (a) Franchisee acknowledges that uniform and high standards of quality, service, cleanliness, and appearance among all Pizza Factory restaurants are necessary in order to create and maintain the goodwill and widespread consumer acceptance. Therefore, Franchisee agrees that it shall always prepare, sell, dispense and/or give away all food products, beverages, and any other item of any kind in strict compliance with the procedures and specifications as to ingredients, preparation, appearance, packaging, serving, and weight or size set forth in the Manual or any updates to the Manual. Franchisee shall neither sell, dispense, nor give away any item or provide any service on the Premises except those which have been approved by Franchisor. Franchisee further agrees to use only those cups, containers, napkins, uniforms, paper goods, and other packaging, supplies, or items bearing the Franchisor's trade name or marks which conform to the Manual or any updates thereof.

(b) Franchisee is required to purchase all the requirements of dough mix, spaghetti sauce spice, pizza sauce spice, fiesta seasoning and meatball seasoning, and any other ingredient for authorized menu items as may be designated by Franchisor at any time from only that supplier(s) designated by Franchisor. Franchisee is also required to purchase all other requirements of food, salad bar items, wine, other beverages (other than beer), materials and supplies only from suppliers designated by Franchisor and, if not designated, from any other supplier meeting the standards and requirements set by Franchisor.

(c) Franchisee is required to provide a delivery service from the initial opening of the Franchise Business to the public and thereafter continue to maintain delivery service in compliance with the standards and specifications required by Franchisor during the term of this Agreement or any extension or renewal thereof. If Franchisee utilizes a non-employee, third party delivery service, Franchisee is required to obtain from said non-employee, third party delivery service a proof that said delivery service maintains adequate automobile liability insurance coverage for delivery services of no less than $1,000,000.00 at all times while providing such service to Franchisee and provide such proof to Franchisor within five (5) days of Franchisor's written demand. Franchisee must confirm that the delivery person is properly licensed and is not exhibiting any behaviors which would indicate that person was under the influence of alcohol or mind-altering prescription or non-prescription drugs of any nature.

(d) Franchisee is required to utilize a Point of Sale computer system as specified by Franchisor, currently the Speedline, Model No. 7.3R200, and such other software and/or equipment as thereafter may be required pursuant to Sections 4.07(c) and 4.08. Further, Franchisee is required to secure and continuously maintain the hardware and software support services necessary to maintain said Point of Sale computer system updated and in good working order.

(e) From time to time the Franchisor is able to negotiate a contract with a major distributor, such as Coca-Cola, which may provide a marketing incentive in the event that all Franchisees agree to purchase a certain designated product. Notwithstanding any other provision hereof, including paragraph 4.07(g), upon 30 days' notice to the Franchisee by Franchisor, Franchisee shall agree to and purchase and use as directed by Franchisor and/or offer for sale a certain food product or ingredient from the vendor designated by Franchisor. Franchisor may retain any and all marketing incentives received as compensation for arranging for such products.

(f) All signs, posters, or other forms of displays or advertisements used in the operation of the Franchise Business must be approved by Franchisor and those bearing the name and trademarks of Franchisor must be leased or purchased from Franchisor, from a supplier designated by Franchisor, or as otherwise expressly approved in writing by Franchisor.

**Adherence to Manual and Standards**

**Section 4.07.** Franchisee agrees that adherence to the Manual and to Franchisor's standardized design and specifications for decor of the Franchise Business Premises and uniformity of equipment, layout, signs, menus, and other incidents of the Franchise Business are essential to the image and goodwill thereof. In recognition of the mutual benefits accruing from the maintenance of uniformity of appearance, service, products, and marketing procedures, and in recognition of unanticipated changes in technology, consumer preferences, industry practices and trends, scientific discoveries and other factors affecting the industry, it is mutually agreed as follows:

(a) Except as specifically authorized in writing by Franchisor, Franchisee shall not alter the appearance or size of the Premises or the improvements thereto. Franchisee will promptly make all repairs and alterations to the Premises and improvements thereto as may be determined by Franchisor to be reasonably necessary. Franchisee will, at all times, maintain the interior and exterior of the Premises, and all furniture, equipment, and furnishings in a clean and sanitary condition and strictly adhere to the health and safety laws and regulations of any governmental agency as well as the procedures relating thereto as set forth in the Manual.

(b) Franchisee agrees to display Franchisor’s trade names and trade and service marks at the Premises in the manner authorized by Franchisor and is prohibited from using those marks or any modification of those marks except in conjunction with the operation or marketing of the Franchise Business. Franchisee further agrees to maintain and display signs of the color, size, and design and in the locations specified by Franchisor. Franchisee shall not place additional signs or posters on the Premises without the written consent of Franchisor. Franchisee shall not use or display any name, mark, design, or slogan in the operation of the Franchise Business except those expressly authorized by Franchisor and must promptly cease using any advertisement, sign, display, name, mark, design, or slogan, whether previously authorized or not, immediately upon demand by Franchisor.

(c) Franchisee agrees to maintain all specified equipment, furnishings, signs, and other personal property in excellent working condition. As items of equipment become obsolete or in need of replacement, Franchisee will replace such items with the same or substantially similar types and kinds of equipment as are being installed in Pizza Factory restaurants at the time replacement becomes necessary. All equipment used in Franchisee’s restaurant shall meet Franchisor’s specifications.

(d) Newspaper racks, jukeboxes, gum machines, games, recreational equipment (e.g., bounce houses, playground equipment, etc.) or coin vending machines will not be installed or otherwise used in or on the Premises without the prior written approval of Franchisor. Notwithstanding the foregoing, Franchisee may install arcade vending machines at a location in or on the Premises approved in advance and in writing by the Franchisor. No cigarette vending machines shall be installed or otherwise used in or on the Premises, nor shall cigarettes or other tobacco products be sold in or on the Premises.

(e) Franchisee agrees to serve each and every menu item specified by Franchisor (including beer and wine) and may not sell, cause or allow to be sold, distributed, or given away any other food, drink, or any other product, merchandise, or item of any kind on the Premises without the prior written approval of Franchisor. Franchisor will also assist Franchisee in selecting prices for sale of approved products. Franchisor will also review Franchisee's requests for any changes to the menu approved for use at the Franchise Business, including price changes. However, no changes may be made to the menu, including pricing, unless first approved in writing by Franchisor. Prior to opening the Franchise Business, Franchisor will review approved all items authorized to be sold with the Franchisee and consider any requests by the Franchisee for changes to the sales price for any product set out on the menu approved for use at the time of opening. No changes may be made to the menu approved for use at the Franchise Business, including pricing, without the prior approval of Franchisor.

(f) Franchisee agrees that cups, containers, napkins, paper goods, packaging, and other items imprinted with Franchisor's trade name, trademark, or other indicia shall be purchased by Franchisee through a supplier or manufacturer approved in writing by Franchisor and Franchisor agrees to assist Franchisee in establishing approved sources for such items. Franchisor agrees to assist Franchisee in establishing approved sources of supply of food items or ingredients. The Franchisee agrees to utilize only those cups, containers, napkins, paper goods, packaging and other items used to dispense products sold which bear the Franchisor's trade name and/or trademark as may be approved by the Franchisor as mentioned above.

(g) Except for the Franchisee's requirements of dough mix, pizza sauce spice, spaghetti sauce spice, fiesta seasoning, and meatball seasoning or for any other ingredient for an authorized menu item or for other products and supplies the supplier of which has been specifically designated by Franchisor as an exclusive supplier, if Franchisee gives Franchisor notice sufficiently in advance to permit Franchisor to verify adherence to Franchisor's standards and specifications, that Franchisee desires to purchase equipment, food supplies, containers, or other products from reputable, dependable sources other than those previously approved, Franchisor will not unreasonably withhold the prompt approval of such purchase, provided the items purchased conform to the appearance, quality, size or portion (and, where applicable, taste), and uniformity standards and other specifications of Franchisor. Samples from such alternative suppliers must be delivered to Franchisor for testing and approval delivered in writing to Franchisee before such products may be used by Franchisee. Upon receipt of the request and samples from Franchisee, Franchisor shall estimate the cost to process said request including the cost of any testing or sampling which Franchisee must pay to Franchisor prior to Franchisor taking any further action on Franchisee's request for approval to use the alternative product. Franchisee shall pay to Franchisor as a condition of approval any reasonable amounts expended by Franchisor to process Franchisee's request which exceed the estimate. Franchisor shall refund to Franchisee any amounts received from Franchisee which were not expended by Franchisor to process the request.

(h) Franchisee shall maintain the highest level of customer service in order to insure prompt delivery of products in the most courteous manner to Franchisee's customers. Chronic or continuous failure to provide service to the standards required by Franchisor resulting from the failure to utilize a sufficient number of staff or adequately training staff for which the Franchisee has received a notice of default pursuant to Section 9.03 on more than two occasions during any 12 month period of time shall constitute grounds for immediate termination of the Franchise.

(i) Franchisee shall refrain from using and prohibit rude, vulgar, sexually explicit, discourteous, disrespectful, or other conduct or activities in the operation of the Franchise Business or on the Premises which are inconsistent with the operation of a family restaurant. Franchisee shall refrain from using and prohibit any conduct, displays, or activities on the Premises which are insensitive to or disrespectful of any person based on race, creed, nationality or heritage, political affiliation, religion, or those suffering from physical or mental disabilities. Franchisee will also refrain from and prohibit any other conduct or activities on the Premises which could adversely affect public opinion or otherwise cause Franchisee, Franchisor, or its network of franchises to be held in public disrepute. Three or more customer complaints received by Franchisor within any 60 day period complaining of circumstances described in subsections (h) or (i) of this section 4.07 shall constitute a default for the purposes of Article 9. More than two instances of any notices of default issued based upon a violation of subsections (h) or (i) during any 12 month period of time shall provide grounds for a non-curable default and immediate termination of the Franchise.

(j) Franchisee shall accept payment for all sales by United States coin, currency, bank debit cards, and all credit cards specifically required by Franchisor.

(k) Franchisee expressly agrees to comply with any modifications, changes, additions, deletions, substitutions and alterations of the Program, including any of the products, specifications, procedures, trademarks, interior or exterior decor packages, employee dress and/or appearance or any other aspect of the Program without limitation except as otherwise expressly set forth in this Agreement; provided, however, such changes, modifications, additions, deletions or alterations shall not materially or unreasonably increase the obligations of the Franchisee hereunder.

(l) Franchisee shall refrain from any course of conduct undertaken for the purpose of having a negative effect upon any neighboring Pizza Factory restaurant and must cease such a course of conduct immediately upon receiving written notice from Franchisor, either pursuant to Section 10.08 or by overnight delivery. Franchisor shall determine, in its sole and absolute discretion, whether a particular course of conduct is designed for the purpose of having a negative impact within the meaning of this provision.

**Refurbishments**

**Section 4.08.** Franchisee agrees to effect, within 30 days after notice from Franchisor, such refurbishment of the Franchise Business Premises as Franchisor may from time to time require to maintain or improve the appearance and efficient operation of the Franchise Business and/or increase its sales potential. Franchisee shall not be required to make aggregate expenditures for refurbishments in excess of 5% of the Net Sales from the date of its opening to the date of any required refurbishment except if Franchisor agrees to pay to or credit Franchisee the difference, provided that Franchisee shall not be required to effect any refurbishment during the last six months of the initial term or during the last six months of any renewal term of the Franchise except as may be necessary to comply with the minimum standards required by this Agreement which are effective six months prior to the end of the applicable term. Amounts spent for relocation of the Premises are not included in the aggregate amount of refurbishments which Franchisor may require Franchisee to make during the term of this Agreement. Franchisees still in the process of opening may be required to change or modify their plans or specifications if the same will cost less than $5,000.00 or Franchisor agrees to pay or credit Franchisee any amount in excess of $5,000.00.

**Nondisclosure of Information**

**Section 4.09.** Neither Franchisee nor any of its partners, officers, directors, agents, or employees shall, except as required in the performance of the duties contemplated by this Agreement of

Franchisee or any such persons (unless the express prior written consent of Franchisor is obtained to do so), disclose or use at any time, whether during the term of this Agreement or thereafter, any information disclosed to or known by Franchisee or any such person as a result of or through this Agreement. Such information includes, but shall not be limited to, information conceived, originated, discovered, or developed by Franchisee or by any employee of Franchisee which is not generally known in the trade or industry, about Franchisor's products, services, or licenses, including information relating to discoveries, ideas, manufacturing, purchasing, accounting, engineering, marketing, merchandising, or selling, and includes all information contained in the "Program."

**Right to Discoveries and Ideas**

**Section 4.10.** Franchisee shall promptly disclose to Franchisor all discoveries and ideas, whether patentable or not, relating to Franchisor's business, which are conceived or made by Franchisee or any partner, officer, director, agent, or employee of Franchisee, solely or jointly with others, during the term of this Agreement, whether or not Franchisor's facilities, materials, or personnel are utilized in the conception or making of such discoveries or ideas. Franchisee hereby acknowledges and agrees that all such discoveries and ideas are the exclusive property of Franchisor, and that Franchisor shall have no obligation to Franchisee with respect thereto.

**Consent and Compliance**

**Section 4.11.** Franchisee shall obtain, within a reasonable time after the execution of this Agreement, written consent to the provisions contained in this Article, signed by each of its partners, officers, and directors holding office at that time; and, thereafter, shall obtain such consent from such persons who take office after that time. In addition, Franchisee shall take all necessary action to insure compliance with the provisions of this Article by such persons as well as by all other employees or agents of Franchisee.

**Contributions to Advertising**

**Section 4.12.** (a) Franchisee shall pay an amount equal to 3% of its monthly Net Sales to a special advertising account established and administered by Franchisor for the purpose of advertising for the benefit of Franchisor's Franchisees and other purposes permitted by Section 3.06. All payments to the said account shall be made on or before the last business day (non-holiday, Monday - Friday) of the month following the month for which payment is due and shall be made by electronic transfer. The bank information necessary to allow for electronic transfer shall be provided to Franchisor no less than 30 days prior to the opening date of the Franchise Business and within 48 hours of any change of that bank information. Franchisor hereby warrants that all such sums shall be used for advertising purposes or administration of the advertising program. Franchisor shall maintain good and adequate books and records of each expenditure which shall be available for inspection by Franchisee at all reasonable times. Any information not reported as required to determine the amount due, then the amount due may be based upon estimated sales as determined according to the provision of Section 4.17(d) hereof. A service charge as provided for in Section 4.17(d) shall be added if Franchisee fails to make the payment as provided for herein for each month that said monthly advertising fee remains unpaid and which shall be paid by electronic transfer.

(b) In addition to the contribution required by Section 4.12 (a), Franchisee is required to spend no less than 1% of the total sales on local advertising and promotion of Franchisee's Pizza Factory restaurant during any quarter (any three month period). Franchisee shall include in its monthly sales and expense reports, as required by Section 4.17, the total amount spent each month on advertising and promotion. Upon ten days written demand by Franchisor, Franchisee must provide to Franchisor written evidence of such expenditures including, but not limited to, invoices, canceled checks, receipts, purchase orders, etc. Any advertising or promotional material developed by Franchisee must still be approved by Franchisor as required pursuant to Section 3.06 prior to use by Franchisee.

(c) If a local or regional advertising cooperative is formed by Franchisor for a particular geographical location within which the Franchise Business is situated, Franchisee is required to participate in said local and/or regional advertising cooperative. Franchisee shall be required to contribute a percentage of Franchisee's Net Sales to the Fund maintained for said local and/or regional advertising cooperative which will not exceed 2% of Franchisee's Net Sales in addition to the amount referred to in Section 4.12 (a). Franchisor shall maintain and administer the Fund established for local and regional advertising cooperatives pursuant to the provisions of Section 3.06 hereof.

(d) Franchisor may, by electronic transfer from Franchisee's bank account, pay itself any amounts due and owing to Franchisor for sale of advertising material and promotional items to Franchisee which amounts are past due more than 30 days.

**Promotion of Business**

**Section 4.13.** Franchisee shall diligently and fully exploit his rights under this Agreement in every manner by devoting his/her best efforts and adequate time to the operation of the Franchise Business, keeping free from conflicting enterprises, non-Pizza Factory competing businesses, or any other activities which would be detrimental to or interfere either with the Franchise Business or with any similar establishment conducted by another franchisee of Franchisor.

**Compliance with Laws and Policies**

**Section 4.14.** Franchisee shall comply with all federal, state, county, and municipal laws, ordinances, and regulations affecting, either directly or indirectly, the operation of the Franchise Business. Franchisee shall also comply with all policies issued by Franchisor pertaining to the operation of the Franchise Business in order to maintain uniformity among the network of Pizza Factory restaurants. Franchisee shall also comply with all policies issued by Franchisor pertaining to the operation of the Franchise Business in order to maintain uniformity among the network of Pizza Factory restaurants. During the term of the franchise, Franchisee and, if applicable, its principals, shall refrain from conduct which is harmful to the Pizza Factory brand or network of Pizza Factory restaurants including, but not limited to, making public statements disparaging the quality of Pizza Factory products or other Pizza Factory franchisees, or commit acts which places Franchisor in public disrepute. Upon request by Franchisor, Franchisee is required to provide to Franchisor proof of compliance or that Franchisee is current in all obligations required by the Federal, state, or local governmental agencies (e.g. sales tax, employment tax, corporate/LLC authorization, business licenses, health permits/certifications, liquor license, etc.). Proof of compliance must be provided to Franchisor within 10 days of request. More than two instances of any notices of default issued based upon a violation of this provision during any 12 month period of time shall provide grounds for a non-curable default and immediate termination of the Franchise.

**Noncompetition By Franchisee**

**Section 4.15.** (a) During the term of the franchise, the franchisee shall not, directly or indirectly, undertake or otherwise be involved with any other business activity which will compete with the business activity of any Pizza Factory restaurant. The Franchisee shall not sell any item purchased from or through the Franchisor, or bearing the trademark or trade name of “Pizza Factory” or any other registered trade or service mark of the franchisor, to any dealers or for resale, unless such sale is specifically approved in writing and in advance by the Franchisor.

(b) The Franchisee shall require his or her management personnel and, if applicable, each of its principals to sign a non-competition agreement (attached hereto as Exhibit 7) prohibiting said individuals from engaging, either directly or indirectly, or in an advisory capacity, in any competing business wherever located while a principal or employee of Franchisee and for a period of time following termination of that position in the franchise and protecting Franchisor's trade secrets. Franchisee shall provide a copy of said non-competition agreement signed by each principal, whether or not an employee of Franchisee, to Franchisor within ten days of executing this Agreement, within ten days of any person becoming a principal of Franchisee, prior to any assignment or transfer of an ownership interest in the Franchise or prior to assuming the duties of a management employee. For the purpose of this provision, the term "principal" or "principals" shall mean any person(s) named in this Agreement as Franchisee or who holds any ownership interest in the Franchise Business. Notwithstanding the foregoing, if Franchisee or any or its principals continues to operate a pizza/pasta or similar restaurant on the Premises following termination or expiration of the Franchise granted herein, Franchisee may continue to operate such a business at said location subject to all other post-termination obligations but at no other location within five (5) miles of a Pizza Factory restaurant.

**Disclosure of Income, Expense, and Other Information**

**Section 4.16.** (a) Franchisee shall engage and maintain an independent bookkeeper or certified public accountant for the Franchise Business. In order to qualify as being "independent," the bookkeeper or certified public accountant must be an independent contractor whose services are available to the public generally, maintains a business location separate from the Franchise Business, has no equity interest in the Franchise Business, and is not related by blood or marriage to the of the franchisee nor employs anyone who has such a relationship or equity interest. Franchisee shall provide to Franchisor the name, address, telephone number, and email address of any independent bookkeeper or certified public accountant Franchisee engages to comply with this subsection upon request by Franchisor. Any changes in that information shall be provided by Franchisee to Franchisor within two days of Franchisee learning of those changes. Franchisee will also authorize any independent bookkeeper or CPA to release to Franchisor any information pertaining to the operation of the Franchise Business upon request by Franchisor made directly to said bookkeeper or CPA.

(b) The bookkeeping information necessary to compile the sales, income, expense and inventory data for each month shall be set forth in the form required by Franchisor and shall be mailed or hand delivered to the Franchisee's independent bookkeeper or CPA of choice on or before 15 days after the end of each month to insure that such monthly information is available to Franchisor within the time stated below. The Franchisee's independent bookkeeper or CPA shall provide to the Franchisor daily and monthly sales, income, expense and inventory data of the Franchisee's operation for each month, in a form specified by the Franchisor, on or before the last business day of the following month.

(c) The Franchisor may audit and review all of the financial records of the Franchise Business at any time during regular business hours or at any other reasonable time and Franchisee shall permit such audits and reviews and make all reasonable accommodations necessary to allow for the completion of such audits and reviews.

(d) In the event Franchisee fails to provide to Franchisor the daily and monthly sales, income, expense and inventory data required by this provision within the time required by this provision, a service charge shall be added to the respective royalty and advertising fee which is to be calculated from said daily and monthly sales, income, expense, and inventory information. The service fee shall be $75.00 or 10% of the royalty/advertising fee calculated from said daily and monthly sales, income, expense and inventory information, whichever is greater, and said service fee shall be added for each month that said daily and monthly sales, income, expense, and inventory data remains unreported and which shall be paid by electronic transfer. Any amounts not reported as required may be estimated based on the average amount(s) of the prior 12 months or, if the term of the Franchise has been less than 12 months, then the average amount(s) for the term of the Franchise.

(e) Franchisee is required to provide Franchisor with independent access to the information that will be generated or stored in Franchisee's POS system (described in Section 4.06 of this Franchise Agreement). Franchisee is required to provide to Franchisor any access codes or other information or authorization necessary to allow Franchisor to independently access said POS system electronically or by any other method requested by Franchisor in order to obtain daily sales reports and profit and loss reports. Franchisor may access said system at any time and without limitation.

(f) Franchisee is required to authorize any third parties from whom/which Franchisee receives product or services utilized in any aspect of the Franchise Business to release any and all information and documents pertaining to such products or services directly to Franchisor. Said authorization to said third party must be provided by Franchisee either at the time Franchisee engages or contracts with said third party or promptly upon Franchisor's demand that they provide said third party with such authorization.

**Attendance at Company-Wide and Regional Conferences**

**Section 4.17.** At the sole discretion of Franchisor, Franchisor may periodically hold company-wide and regional conferences for the purpose of discussing with and/or providing to Franchisees information pertinent to the operation of Pizza Factory restaurants. Franchisor will not charge a fee for the Franchisee to attend the conference but the Franchisee is responsible for paying all travel and living expenses while at these conferences. Attendance at these conferences is **MANDATORY**. Pizza Factory will provide the Franchisees with no less than 30 days notice of the date and location of such conferences. The failure of Franchisee or a principal of Franchisee to attend the entire conference will constitute a default within the meaning of Section 9.02 of this Agreement. The location of the conference shall be selected by Franchisor.

**Security Interest**

**Section 4.18.** Franchisee is required to grant to Franchisor a security interest in all of the equipment and fixtures associated with the Franchise Business to secure any and all obligations of the Franchisee as set forth in this Agreement. The security interest will be created and perfected by Franchisee executing a security agreement and a UCC-1 financing statement in the general form and style as depicted in Exhibits 1 and 2 hereto. If necessary, Franchisee agrees to execute a modification of the Security Agreement to provide security in any additional equipment or fixtures acquired for use in the business and execute a UCC-2 form to perfect such modification. The security interest granted to Franchisor must be first in priority and superior to any other security interest granted by Franchisee to any third party except if Franchisee has granted a security interest in such equipment and fixtures to a lender for the purpose of financing establishment of the Franchise Business or purchase of fixtures such equipment for the business in a reasonable sum, and then Franchisor will accept a security interest second in priority only to that lender. The security agreement and financing statement must be executed and delivered to the Franchisor by the Franchisee prior to Franchisee opening the Pizza Factory restaurant for business. Additionally, Franchisee is required to provide to Franchisor amendments to the security agreement and financing statement to provide Franchisor a security interest in any and all new equipment and fixtures acquired by Franchisee after the opening of the restaurant. Such additional grants of security shall also be first in priority and superior to the security interest of any other third party except such security interest may be second in priority to the security interest of a lender or financier of such new equipment or fixtures but up to and including the amount of the purchase price of such new equipment or fixtures actually loaned or deferred. It is the obligation of the Franchisee to advise the Franchisor of any new acquisitions of equipment and fixtures within ten days of the date of acquisition. If the Franchisee is a corporation, limited liability company, limited partnership or other business entity with limited liability protection, all principal owners must also sign the Security Agreement.

**Mandatory Relocation - Condemnation and Casualty**

**Section 4.19.** (a) Franchisee must give Franchisor immediate notice in writing of any proposed taking of the Franchise Business or all or any portion of the Premises by eminent domain. If Franchisor agrees that the Franchise Business or the Premises (or substantial portions thereof) will be taken, Franchisor will require Franchisee to relocate the Franchise Business to a nearby location within 60 days of the taking which substantially complies with the Site Selection Guidelines then in effect.

(b) If the Franchise Business is damaged by fire or other casualty, Franchisee will expeditiously repair the damage. If the damage or repair requires closing the Franchise Business, the Franchisee will immediately notify Franchisor and will promptly begin all actions necessary to repair or rebuild the Franchise Business and Premises. If for any reason the Franchise Business and/or Premises cannot be repaired or rebuilt to allow it to be reopened for business within 120 days, then Franchisor may require Franchisee to relocate the Franchise Business to a nearby location which substantially complies with the Site Selection Guidelines then in effect and depending on the terms of Franchisee’s lease, if applicable.

(c) For the purpose of this Section 4.20, the term “nearby” shall mean an area within a ten (10) mile radius of the Premises hereof which is no less than five (5) miles from any other Pizza Factory restaurant. If relocation is either necessary or required by Franchisor, Franchisee will be required to designate a new location which substantially complies with the Site Selection Guidelines then in effect within 60 days of the taking, damage, or destruction of the Premises or

30 days from notice by Franchisor, whichever is longer, and reopen the Franchise Business at said new location within 120 days of Franchisor's approval of the new location and in compliance with the provisions for relocation set forth in Sections 1.04, 3.04, and 4.19 of this Agreement.

(d) Nothing in this Section 4.20 will extend the term of this Agreement or the Franchise to Franchisee without the express written approval signed by both Franchisor and Franchisee.

**Methods for Business Communications**

**Section 4.20.** Except for formal notices required by this Agreement (e.g. Notice of Default, etc.), Franchisor and Franchisee may communicate between each other for general business matters by facsimile, telephone, in-person communications, and electronic mail. Franchisor shall assign to Franchisee an electronic mail address ([storename]@pizzafactory.com). The assigned electronic mail account is for general business communications by and between Franchisor and Franchisee and Franchisee is not permitted to utilize the assigned electronic mail account for personal matters. Neither Franchisor, nor any of its employees are obligated to monitor any form of electronic communications or any method of communication other than the assigned electronic mail account mentioned in this provision. Franchisee shall refrain from utilizing their personal social media accounts for the purpose of general business communications, or utilizing the assigned electronic mail account for personal communication and are further prohibited from utilizing any of Franchisor's registered trade name, trademarks, or service marks in their personal social media accounts. Franchisor is not obligated to, and shall not, monitor any social media or other types of electronic accounts maintained by Franchisee and Franchisor shall be deemed to be unaware of any entries made on those accounts.

## ARTICLE 5 USE OF PROGRAM

**Use or Duplication of Program**

**Section 5.01.** Franchisee acknowledges that Franchisor is engaged in nationwide franchising of the Program and that Franchisor's franchises are valuable because its Franchisees obtain the benefit of the Program which provides expert and experienced organization, meticulous instruction in every detail of building, planning, equipping, purchasing, accounting, marketing, promotion, advertising, and operation of a Pizza Factory establishment, including the goodwill of a nationally established name and reputation. Franchisee further acknowledges that any appropriation or duplication of said Program or any part thereof for any use or purpose other than for the operation of such establishment at the location specified herein will seriously impair the value of Franchisor's national franchising business, as well as the value of the franchises granted by Franchisor to all of its franchisees throughout the United States. Accordingly, Franchisee agrees that except as to any of Franchisor's establishments operating under bona fide franchises granted by Franchisor or any direct or beneficial ownership in a company listed on any national exchange, during the term of this Agreement, or in the event of expiration or termination for a period of five years after such termination or expiration, Franchisee shall not, without the written consent of Franchisor first had and obtained, directly or indirectly engage in or acquire any financial or beneficial interest in any business which directly or indirectly uses or duplicates said Program, or any portion thereof.

**Trade Secrets**

**Section 5.02.** Franchisee acknowledges that Franchisor is the owner of all proprietary rights in and to the Program and each and every part thereof and the material and information now and hereafter provided and/or revealed to Franchisee under this Agreement relating to the Program. Franchisee further acknowledges that the Program, in its entirety, constitutes trade secrets of Franchisor, that they are revealed to Franchisee in confidence, and that no right is given to or acquired by Franchisee to disclose or reveal any portion thereof, and Franchisee hereby covenants and agrees to keep and respect the confidence hereunder reposed.

**Ownership and Use of Names, Marks, Goodwill**

**Section 5.03.** Franchisee acknowledges that Franchisor is the sole owner of all names and marks and goodwill associated with said Program now or hereafter attached thereto and used in connection therewith, and that Franchisee, by this Agreement, acquires no right, title, or interest in or to the same whatsoever, other than the right to use the same in the manner prescribed and approved by Franchisor and in accordance with this Agreement. The Franchisee agrees not to contest, directly or indirectly, Franchisor's ownership, title, right or interest in any of the trade names or trademarks, service marks, trade secrets, methods, procedures and advertising techniques which are part of the Franchisor's business, or contest the Franchisor's sole right to register, use or license others to use such names and marks, trade secrets, methods, procedures and techniques. Franchisee may only use Franchisor's marks during the term of this Agreement and only as part of the Pizza Factory Program utilized in the Franchise Business. Franchisee is prohibited from modifying or changing any of Franchisor's trade names, trademarks, or service marks except as provided in Section 5.04. The Franchisee is required to advise the Franchisor as soon as reasonably possible after Franchisee learns about an infringement or challenge to the use of any trademarks, trade names, service marks, trade secrets, or any improper or unauthorized use of the Manual. Franchisee also agrees that if it is a limited liability entity (e.g. corporation, limited liability company, limited partnership, etc.), the name of said entity may not include any trademark, service mark, or trade name owned by or registered in the name of Franchisor and, if violated, must promptly modify the name upon demand by Franchisor. Franchisee shall modify or make any change necessary to its name to the extent that the same interferes with or infringes upon Franchisor's registered trade names, trademarks, or service marks.

**Obligations and Defense of Names, Marks, Goodwill**

**Section 5.04.** Franchisee must modify or discontinue the use of any trademark, service mark, process or any copyrighted material if Franchisor modifies or discontinues use of such mark, material or process. In the event that such modification or discontinuance is the result of or arises out of claims or actions by third party(ies), Franchisor's sole obligation is to reimburse Franchisee for the tangible costs of compliance (for example, changing signs, menus, etc.). Franchisee must promptly comply with any decision by or directive from Franchisor to add, modify or discontinue the use of a name, mark or an item or process whether or not covered by a registered trademark, service mark, copyright, or patent. Franchisor's sole obligation in the event of such addition, modification or discontinuance is to reimburse Franchisee for the tangible cost of complying with these obligations if such is the result of or arises out of claims(s) or action(s) by third party(ies). In the event of a claim or action initiated by a third party pertaining to any name, trademark or service mark, copyright, or patent violation or other infringement arising out of or relating to Franchisee's use of any item, process or mark which is part of the Pizza Factory Program authorized for Franchisee's use by Franchisor and not in violation of any provision of this Agreement, Franchisor will indemnify Franchisee for any damages it may suffer by reason of such claim and may, at its option, defend the Franchisee in such litigation, which defense Franchisee is required to accept. If Franchisor provides a defense for Franchisee, which may include a joint defense with Franchisor if applicable or unless prohibited by law, Franchisor is not responsible to pay for any other legal fees or costs incurred by Franchisee in defense of the claim, action or proceeding. However, if Franchisor does not or cannot provide a defense for such an action or claim, it will reimburse Franchisee for the reasonable costs incurred in litigation associated with use by Franchisee of such item, process or mark. In the event of any claim or legal action instituted by a third party against both Franchisor and Franchisee, covered by this provision, Franchisee agrees to execute an appropriate waiver of any conflict of interest between Franchisor and Franchisee or such other document as necessary to allow a joint defense with Franchisor unless doing so would be unlawful or unreasonable under the circumstances.

## ARTICLE 6 RELATIONSHIP OF PARTIES

### Franchisor's Control

**Section 6.01.** (a) Franchisee shall be responsible to Franchisor only for the requirements and results specified by this Agreement. Nothing in this Agreement may be construed to create a partnership, joint venture, agency, employment, or fiduciary relationship of any kind. Franchisee's employees are not and will not be considered Franchisor's employees. Neither Franchisee nor any of Franchisee's employees or those who are otherwise compensated by Franchisee may in any way, directly or indirectly, expressly or by implication, be construed to be Franchisor's employees for any purpose, most particularly with respect to any mandated or other insurance coverage, tax or contributions, or requirements pertaining to withholdings, levied or fixed by any national, city, state, or federal governmental agency. Franchisor will not have the power to hire or fire Franchisee's employees. Franchisee expressly agrees, and will never contend otherwise, that Franchisor's authority under this Agreement to certify or approve certain Franchisee's employees as qualified to perform certain functions for the Franchise Business does not directly or indirectly vest in Franchisor the power to hire, fire, or control any such employee.

(b) Franchisee acknowledges and agrees, and will never contend otherwise, that Franchisee alone will exercise day-to-day control over all operations, activities, and elements of Franchisee's Franchise Business and that under no circumstances shall Franchisor do so or be deemed to do so. Franchisee further acknowledges and agrees, and will never contend otherwise, that the various requirements, restrictions, prohibitions, specifications, and procedures of the Program which Franchisee is/are required to comply with under this Agreement, whether set forth in the Manual or otherwise, do not directly or indirectly constitute, suggest, infer, or imply that Franchisor controls any aspect or element of the day-to-day operations of the Franchise Business, which Franchisee alone controls, but only constitute standards Franchisee must adhere to when exercising control of the day-to-day operations of the Franchise Business.

### Scope of Authority

**Section 6.02.** (a) Franchisee does not, without Franchisor's prior written approval, have any power or authority to obligate Franchisor for any expenses, liabilities, or other obligations, other than as specifically provided in this Agreement or to which Franchisor expressly consents in writing. Except as expressly provided in this Agreement, Franchisor may not control or have access to Franchisee's funds or the expenditure of Franchisee's funds or in any other way exercise dominion or control over Franchisee's Franchise Business. Except as otherwise expressly authorized by this Agreement, neither party will make any express or implied agreements, warranties, guarantees, or representations or incur any debt in the name of or on behalf of the other party, or represent that the relationship between the parties is other than that of franchisor and franchisee. Franchisor does not assume any liability, and will not be considered liable, for any agreements, representations, or warranties made by Franchisee which are not expressly authorized under this Agreement. Franchisor will not be obligated for any damages to any person or property which directly or indirectly arise from or relate to Franchisee's operation of the Franchise Business.

(b) Franchisee must display at all times in a place conspicuous to the public at the Franchise Business a sign approved by the Franchisor which reads substantially as follows: "This franchise restaurant is independently owned and operated by [name and address of the Franchisee and, if appropriate, any contact person]."

## ARTICLE 7 LIABILITY INSURANCE AND INDEMNITY

### Insurance Coverage

**Section 7.01.** Franchisee hereby agrees to carry products liability insurance and public liability insurance in amounts not less than $2,000,000.00 per incident and $4,000,000.00 in the aggregate for bodily injury and property damage covering the Franchise Business and its Premises and products. Franchisee further agrees to name Franchisor as an additional insured in all insurance policies procured pursuant to this Article. In addition to the auto insurance which is required of non-employee and/or third party delivery services utilized by Franchisee (see Section 4.06 (c)), Franchisee is also required to obtain an appropriate auto insurance policy to cover delivery services (non-owner and/or commercial) providing benefits of no less than $1,000,000.00 in the aggregate for public liability and public damage. Prior to commencing business Franchisee shall provide to Franchisor proof of compliance with these insurance requirements. During the term of the franchise Franchisee shall continue to provide proof of compliance on no less than an annual basis or within ten days of written request from Franchisor for such proof. The minimum amount of coverages mentioned above must be increased to the amount(s) designated by Franchisor upon 180 days written notice to Franchisee.

**Indemnity**

**Section 7.02.** Franchisee covenants and agrees that in the event that Franchisor or any of its employees or agents shall, without fault on his/her/their/its part, be made or become a party to any suit by reason of this Agreement or by any act or omission by Franchisee hereunder, or arising out of or related to the operation of the Franchise Business except as otherwise expressly provided for herein, Franchisee shall pay all costs and expenses, including attorney's fees, incurred by or imposed on Franchisor or any of its employees or agents by or in connection with such litigation.

## ARTICLE 8 ASSIGNMENT

### Assignment by Franchisee

**Section 8.01.** (a) Neither this Agreement nor any interest therein or any assets associated therewith as defined in this provision shall be assigned or transferred by Franchisee unless the written consent thereto is first had and received from Franchisor. Any sale, transfer or assignment as defined in this Article 8 (see subsection (b), below) without the consent of Franchisor as required herein shall be of no force or effect. If such consent is given, Franchisee shall continue to be obligated for the performance of Franchisee's obligations hereunder, notwithstanding the grant of such consent. Payment of the transfer fee then being charged (currently $15,000.00) to Franchisor is required to obtain Franchisor's consent except as otherwise stated. Approval may not be unreasonably withheld by the Franchisor. Unless approved, disapproved, or conditionally approved by Franchisor, approval shall be deemed granted by the Franchisor 60 days after the date on which the Franchisor receives the following items subject to satisfactory compliance by the Franchisee and proposed new franchisee of the conditions for final approval/consent set forth in subsection (b): (1) All forms, financial disclosures, and related information then being generally utilized by Franchisor in reviewing prospective new Franchisees; (2) payment of the transfer fee, and (3) A copy of all agreements related to the sale, assignment, or transfer of the Franchise, the assets of the Franchise Business, or the interest in the Franchise Business to be transferred; provided, however, regardless if conditionally approved or approved by default, then such approval is subject to satisfactory compliance by the Franchisee and the proposed new Franchisee of the conditions for final approval/consent set forth in subsection (b), hereof. In the event the proposed new transferee is disapproved, Franchisor shall return all but $2,500.00 of the transfer fee to the party who/which paid said transfer fee to Franchisor.

(b) Consent to the sale, transfer, or assignment within the meaning of this Section 8.01 shall be conditioned upon the following: (1) the proposed assignees and successors in interest meet reasonable standards of financial and ethical responsibility, considering the standards the Franchisor is then currently applying to new franchises at the time of the proposed sale/assignment; (2) If applicable, the proposed assignee/transferee pays for the initial training program, at the rate then being charged to new franchisees for up to two personnel to attend and satisfactorily completes training required of a new franchisee as set forth in Section 3.08 of this Agreement prior to close of escrow or transfer of the Franchise Business; (3) execution of a release agreement by Franchisee, the form of which is attached hereto, marked “Exhibit 4” and incorporated herein by this reference; (4) execution by proposed assignee/transferee of the Franchise Agreement then being utilized by Franchisor including that the advertising fee will be no less than the advertising fee then being charged for sale of a new franchise and the royalty then being charged to the Franchisee is increased by 1% (e.g. Franchisee royalty of 4% would be 5% for assignee/transferee) or the royalty provided for in the Franchise Agreement then being used for sale of new franchises, whichever is less, and, if applicable, execution of a personal guarantee and a non-competition agreement then being utilized by each principal of the new Franchise; (5) Update all decor and equipment (including point of sale systems) to current standards than being required of new franchisees, and; (6) Franchisee and proposed assignee/transferee satisfies any other condition then required by Franchisor for transfer or assignment of Franchise and then being required of new franchisees or as reasonably appropriate for the proposed new transferee at the time conditional approval was given or deemed given.

(c) If Franchisee or its principals accept a promissory note as part of the purchase price for the sale/transfer/assignment of the Franchise Business and the promissory note is secured by any assets associated with or used in the Franchise Business, Franchisee and, if applicable, its principals shall be required to guarantee the full and faithful performance by the buyer/assignee/transferee of all obligations under the Franchise Agreement. A copy of the form of the Personal Guarantee required is attached hereto as Exhibit 6. Franchisor may waive all or a portion of the transfer fee if the sale, transfer or assignment is to an existing Pizza Factory franchisee or to a business entity wholly owned by the Franchisee(s) named in this Agreement.

(d) A sale, transfer or assignment by Franchisee occurs within the meaning of this contract if (1) there is a sale, transfer or assignment of any rights under this contract including a sale, transfer or assignment to a business entity either wholly or partially owned by Franchisee; (2) a sale, transfer or assignment of the majority of the assets of the Franchise Business including a sale, transfer or assignment to a business entity either wholly or partially owned by Franchisee; (3) in the event the Franchisee is a corporation or other type of business entity other than a sole proprietorship, then any transfer to a third party or entity which/who were not holders of an ownership interest in the Franchisee prior to the transfer; (4) in the event the Franchisee is a corporation or other type of business entity, other than a sole proprietorship, any transfer, sale, or assignment of 10% or more ownership interest in the Franchisee; or (5) a sale, transfer or assignment of any ownership interest in the business being operated at the Premises or at any relocation of said business. The term "Franchise Business" refers to the Pizza Factory restaurant operated pursuant to this Agreement and any or all assets associated therewith.

(e) If the proposed transferee holds 50% or more of the ownership interest in the Franchisee prior to the proposed transfer, then prior to the date of the proposed transfer or assignment, Franchisee must first offer to sell the entire Franchise Business to Franchisor by giving Franchisor written notice to that effect. The notice shall specify the percentage of the Franchise Business or percentage of ownership interest in Franchisee proposed to be transferred or assigned and shall be accompanied by a copy of the contract of transfer or assignment or set forth all of the material terms of the transfer or assignment to the proposed transferee. The notice shall also specify that Franchisor has a right to match that offer, if the same is a bona fide offer, and if less than 100% of the Franchise Business or ownership interest in the Franchisee is proposed to be transferred or assigned, offer to sell to Franchisor the entire Franchise Business or ownership interest in Franchisee at a price and on terms consistent with the offer to sell the portion (e.g. bona fide offer to sell, transfer or assign 50% ownership interest in Franchisee or Franchise Business to the proposed transferee, the offer to sell the entire Franchise Business to the Franchisor will be double the proposed purchase price for the 50% interest). The Franchisor shall have the 30 days after receipt of such notice to exercise the option to purchase the Franchise Business according to the terms and provisions set forth in the notice. Nothing in this paragraph shall be construed or interpreted as excusing Franchisee's obligation to obtain Franchisor's consent for any transfer or assignment required by this Section 8.01 in the event Franchisor declines the offer of first refusal. This subsection (e) does not apply if the sale, transfer or assignment is to a business entity wholly owned by all the Franchisee(s) named in this Agreement.

(f) Franchisor must be notified within 48 hours of the death of the Franchisee or any principal owner of the Franchisee. Upon the death of the Franchisee or any principal owner thereof, the Franchise may continue to be operated under the supervision of any surviving spouse or, if the Franchisee is a business entity, any surviving principal of the Franchisee or, if there is neither a surviving spouse nor principal willing or able to act in that capacity, then under the supervision of a third party competent to operate the business with the written consent of the Franchisor. Continuation of the business beyond ten days after the death of the Franchisee or any principal of the Franchisee by a third party without receiving the consent of the Franchisor as mentioned above shall constitute a noncurable default under Section 9.01 hereof. The business may continue to operate for a period of 12 months under the supervision of a surviving spouse or, if the Franchisee is a business entity, a surviving principal of the Franchisee or a competent person of which the Franchisor has consented, but the estate of the deceased Franchisee or deceased principal of the Franchisee and/or other persons/entities in control of the business must sell or assign the interest of the deceased to a buyer approved by the Franchisor pursuant to this article within 12 months of the death of the deceased Franchisee or principal of the Franchisee. Nothing in this provision should be interpreted as an exception to operate the Franchisee business with a designated on-premises manager as required pursuant to Section 4.02 (b).

(g) In the event the assignment or transfer is the result of any dissolution of marriage or civil union, Franchisee must promptly provide Franchisor with copies of any and all agreements or court orders which pertain or relate in any fashion to the disposition of any interest in the Franchisee or the Franchise Business. Nothing in this provision relieves the Franchisee or any guarantor of the Franchisee of his/her/their/its obligations under this Agreement or any guarantee of performance.

(h) Nothing in this Section 8.01 affects the right of Franchisor to exercise its option to purchase the Franchise Business as provided for pursuant to Section 9.03 hereof except as expressly stated therein.

(i) Franchisee will be assigned an electronic mail address which may be used for business purposes only. That electronic mail address (e.g. "storename@pizzafactory.com") is required to be transferred to any new franchisee or transferee as part of any sale or transfer of the Franchise Business. All electronic mail history for said electronic mail address contained in any electronic storage device shall also be transferred to any new franchisee or transferee.

**Assignment by Franchisor**

**Section 8.02.** . This Agreement is fully transferable by Franchisor, in whole or in part, without the consent of Franchisee and shall inure to the benefit of any transferee or their legal successor to Company's interests herein. Without limiting the foregoing, Franchisor may (i) assign or delegate any or all of its rights and obligations under this Agreement; (ii) sell its assets, its marks, Program outright to a third party; (iii) engage in a public offering of its securities; (iv) engage in a private placement of some or all of its securities; (v) merge, acquire other entities, or be acquired by another entity or business; or (vi) undertake a refinancing, recapitalization, leveraged buy-out or other economic or financial restructuring. Franchisor shall be permitted to perform such actions without liability or obligation to Franchisee who expressly and specifically waives any claims, demands or damages arising from or related to any or all of the above actions (or variations thereof). Franchisor shall have no liability for the performance of any obligations contained in this Agreement after the effective date of such transfer or assignment. In connection with any of the foregoing, at Franchisor's request, Franchisee shall deliver to Franchisor a statement in writing certifying (a) that this Agreement is unmodified and in full force and effect (or if there have been modifications that the Agreement as modified is in full force and effect and identifying the modifications); (b) that Franchisee is not in default under any provision of this Agreement, or if in default, describing the nature thereof in detail; and (c) as to such other matters as Franchisor may reasonably request; and Franchisee agrees that any such statements may be relied upon by Franchisor and any prospective purchaser, assignee or lender of Franchisor.

## ARTICLE 9 DEFAULT AND TERMINATION

**Termination Upon Events of Default**

**Section 9.01.** Franchisor, at its option and without prejudice to any and all remedies which it may otherwise have, either at law or equity, or under the terms of this Agreement, may forthwith terminate, without any notice and cure provisions as set forth in Section 9.02(a) hereof and with only the notice provisions provided for in Section 9.02(c) hereof, the Franchise granted hereunder upon the happening of any of the following events of default:

(a) If Franchisee shall be adjudicated a bankrupt, become insolvent, or fail to pay, within 30 days of the date due, any expense incurred related to the operation of the Franchise Business.

(b) If a receiver of Franchisee's property, or any part thereof, shall be appointed by a court of competent authority.

(c) If a Franchisee makes a general assignment for the benefit of his creditors.

(d) If Franchisee defaults in the payment of any amounts due to Franchisor or its affiliates or to any exclusive supplier within five days after receiving written notice that such fees or amounts are overdue.

(e) If any judgment against Franchisee remains unsatisfied or unbonded of record for 30 days or longer and the Franchise Business or Business Premises of the Franchise are seized, taken over, or foreclosed by the creditor, lienholder, or lessor, or are seized, taken over, or foreclosed by a government official in the exercise of his or her duties; or a levy of execution has been made upon the license granted by the Franchise Agreement or upon any property used in the Franchise Business and it is not discharged within five days of such levy.

(f) If procedures for reorganization or rearrangement of Franchisee's affairs are instituted by, for, or against Franchisee.

(g) If Franchisee's right of possession, as lessee or sublessee of the Premises in which Franchisee operates his Franchise Business, shall at any time be terminated for any cause whatsoever.

(h) Conviction by the Franchisee or any principal of Franchisee of a felony or any other criminal misconduct which is relevant to the operation of the Franchise.

(i) Repeated defaults even after cure (more than two within any 12 month period).

(j) Abandonment of the business or unapproved transfer or assignment of the business.

(k) Franchisor and Franchisee agree in writing to terminate the Franchise.

(l) Franchisee has made any material misrepresentation relating to the acquisition of the Franchise Business or engages in conduct which reflects materially and unfavorably upon the operation and reputation of the Franchise Business or system.

(m) Franchisee fails, for a period of ten days after notification of non-compliance, to comply with any Federal, state, or, local law or regulation, including, but not limited to, all health, safety, building and labor laws or regulations applicable to the operation of the Franchise.

(n) Franchisor has made a reasonable determination that continued operation of the Franchise by the Franchisee will result in an imminent danger to public health or safety.

**Notice and Cure of Default and Liquidated Damage Provision**

**Section 9.02.** (a) If Franchisee fails to substantially comply with any of the terms and conditions of this Agreement or any other agreement with Franchisor pertaining to the operation of the Franchise Business or any lease or sublease of the Premises in which Franchisee operates his Franchise Business or a violation of policies or Program standards or procedures as those may be modified from time to time as provided for in Sections 3.03, 4.02 (a), 4.04, 4.06, 4.07 and 4.08, or the Manual, Franchisor shall, at its option, serve upon Franchisee by certified mail, a 60 day (or longer period if required by applicable law) notice of default. Such notice shall enumerate those acts which constitute a default of this Agreement. Franchisee shall then have 60 days (or longer period if required by applicable law) from the receipt of said notice in which to fully cure all of said defaults in the judgment of Franchisor, Franchisee cures the defaults, and Franchisee's rights under this Agreement shall be reinstated. The time to cure may be extended by separate written agreement between Franchisor and Franchisee. If Franchisee has not fully cured said default or defaults within said time period, Franchisor shall have the absolute right to fully and finally terminate and declare at an end the Franchise granted to Franchisee upon issuance of a final Notice of Termination which shall state the effective date of the termination which shall not exceed 30 days from the date said Notice is mailed or personally delivered to Franchisee in compliance with Section 10.08. Notwithstanding the foregoing, Franchisor may terminate the Franchise granted herein without notice upon any occurrence of the events or violations covered by Section 9.01.

(b) The parties wish to agree upon a formula for liquidated damages to avoid the cost and expense of litigating damages in the event of Franchisee's breach of this Agreement. The parties agree that it would be extremely difficult or impractical to fix the amount of actual damages in advance because of uncertainties in the marketplace and differing circumstances that might exist at the time of breach, including uncertainly as to the value to Franchisor of having a Pizza Factory restaurant in a particular region or area, the exposure of the business name and trade marks to the public, and marketing of prospective franchises to potentially interested parties. Based upon the estimate that it takes at least two years to find a replacement franchisee in a market, the parties have made a reasonable endeavor to estimate fair compensation for the loss that would be sustained upon a breach by the franchisee during the term of this Agreement. The parties, therefore, agree that upon the termination of this Agreement due to the breach of Franchisee, Franchisee shall pay to Franchisor, as liquidated damages and not as a penalty, twenty-four times the average monthly royalty and technology fee that was due and payable on the Net Sales of Franchisee over the two years prior to termination (or if Franchisee has not operated its restaurant for two years, then the period from the month following the opening of the restaurant until the month prior to termination of this Agreement). If the breach occurs at a time when there remains less than 36 months remaining in the term of this Agreement, the multiple shall be reduced to the remaining months in the franchise term. The liquidated damages shall be full and complete compensation for any damages that Franchisor would have suffered for the failure of the Franchisee to fulfill the complete term of this Agreement. Any debt of the Franchisee for royalties or other amounts unpaid at the time of termination, for product purchases, advertising fund fees, or other fees, or other fees and costs will remain to be owed and will be in addition to the agreed upon liquidated damages. The parties further agree that the above-mentioned damages are reasonable and such would have a reasonable relationship to the actual damages, if such could be precisely determined.

(c) Upon Franchisor learning of any event which qualifies as a non-curable default as defined in Section 9.01 hereof, Franchisor may, at its option, forthwith terminate the Franchise which termination shall be effective upon the mailing or personal delivery of a Notice of Termination by the method provided for pursuant to Section 10.08.

**Option to Purchase**

**Section 9.03.** Notwithstanding any other provision herein and/or in addition thereto, Franchisor shall have an option from expiration and/or the date Notice of Termination, as applicable, is given through and including the 60th day following termination or expiration of the Franchise to purchase from Franchisee the Franchise Business including equipment, fixtures, inventory and other assets associated therewith at the Fair Market Value thereof and according to the terms and provisions of the Option Purchase Agreement attached hereto as Exhibit 5 along with any other terms and provisions provided for in this Section. Said option shall be deemed to have been exercised upon Franchisor notifying Franchisee in writing that it is exercising said option. Franchisor shall sign the Option Purchase Agreement and deliver the same to a reputable Escrow

Holder of Franchisor's choice within ten days of the determination of the Fair Market Value pursuant to the terms set forth below. Franchisor may deduct and withhold from said purchase price all amounts due Franchisor and third party creditors from Franchisee, including liens or security interests upon any of the assets so purchased, rentals due under any lease or sublease, or any other indebtedness of Franchisee with respect to the Franchise Business and the assets being purchased thereunder as of close of escrow and, as applicable, pay the same to the Franchisor, lienor, creditor, etc. If requested by Franchisor, Franchisee shall furnish Franchisor and Escrow Holder with an affidavit and other instruments required by applicable sales tax laws or regulations. In addition, Franchisee shall assign and convey to Franchisor, at Franchisor's option all rights, title and interest of Franchisee in or under any lease or sublease of any real or personal property used by Franchisee in the operation of the Franchise Business. In addition to all other remedies provided for herein, Franchisor shall be entitled to specific performance of the option herein granted including the right to enter onto the Premises and operate the business pending completion of the transfer in the event Franchisee fails to continue operating the unit in the normal course of business. Further, Franchisor has an option to purchase the Franchise Business at its Fair Market Value prior to transfer or assignment by Franchisee, after the death of the Franchisee or any principal thereof or bankruptcy thereof pursuant to the procedure provided for in this Section. Said option to purchase upon proposed transfer, assignment or death may be exercised from the date Franchisor has actual knowledge of said death or proposed transfer or assignment and for 60 days following receipt by Franchisor of written notice from any interested party of said event or circumstance. Fair Market Value shall be determined by an appraiser chosen by the Franchisor. Franchisor must provide said appraisal within 60 days of Franchisee providing to Franchisor's appraiser all information reasonably requested by said appraiser. Franchisor may rescind the exercise of its option granted herein at any time prior to the date when Franchisor's appraisal is due. Franchisee shall have the opportunity to object to the appraisal within 15 days after receipt of said appraisal. Thereafter, Franchisee shall have 30 days to obtain another appraisal by a competent appraiser of the Fair Market Value of the Franchise Business at Franchisee's expense and the Fair Market Value shall be determined to be the average between the two appraisals. Should Franchisee fail to provide the additional appraisal within the time specified, the Fair Market Value as determined by Franchisor's appraiser shall be deemed to be the Fair Market Value for the purposes of this provision. If Franchisee timely obtains another appraisal, Franchisor may rescind the exercise of its option by written notice to Franchisee within 20 days following receipt of Franchisee's appraisal and proceed to exercise any other remedy available to Franchisor pursuant to this Agreement or by law. Franchisee shall provide any information and otherwise perform any act necessary to fulfill the foregoing terms and provisions.

**Effect of Expiration or Termination**

**Section 9.04.** (a) Upon expiration or termination of the Franchise, Franchisee's right to use the Program or Franchisor's trademarks, service marks, trade names, or other indicia shall terminate forthwith. Franchisee shall not thereafter, directly or indirectly, identify himself/herself/itself in any manner as a Pizza Factory Franchisee, or publicly identify himself/herself/itself as a former Pizza Factory Franchisee, or use any of Franchisor's trade secrets or materials constituting part of Franchisor's Program. In the event that Franchisor shall not exercise the option to require the assignment and conveyance to Franchisor Franchisee's rights, title and interest in or under any lease or sublease of the Premises, Franchisee agrees upon expiration or termination of the Franchise that Franchisee shall immediately make such removals or changes in signs and colors of buildings and structures as Franchisor shall reasonably request so as to distinguish said Premises from its former appearance and from any other Pizza Factory establishment. If Franchisee shall fail to make such changes forthwith, Franchisor may enter Franchisee's Premises and make such changes at Franchisee's expense.

## ARTICLE 10 MISCELLANEOUS PROVISIONS

**Nonwaiver**

**Section 10.01.** No waiver of any condition or covenant contained in this Agreement nor failure to exercise a right or remedy by either of the parties hereto shall be considered to imply or constitute a further waiver by such party of the same or any other condition, covenant, right, or remedy.

**Governing Law**

**Section 10.02.** The validity and construction of this Agreement shall be governed by the laws of the State of California.

**Construction**

**Section 10.03.** Throughout this Agreement, the use of the singular shall be construed to include the plural and vice versa. The use of any gender shall include all genders, whenever required by the context.

## Execution of Documents

**Section 10.04.** Each party to this Agreement shall from time to time, upon request by the other party, execute, acknowledge, and deliver to such other party a written statement certifying that this Agreement has not been modified and is in full force and effect (or, if there have been modifications, that the same are in full force and effect and stating such modifications). Each party to this Agreement shall also, from time to time, upon request by the other party, execute any additional documents which may reasonably be required to effectuate the purposes of this Agreement.

## Successors and Assigns

**Section 10.05.** The provisions of this Agreement shall inure to the benefit of and be binding upon the parties and their respective representatives, successors, and assigns.

## Severability of Provisions

**Section 10.06.** If any provision of this Agreement is held to be illegal or invalid by any tribunal in a final decision from which no appeal is or can be taken, such provision shall be deemed modified to eliminate the invalid element, and, as so modified, such provision shall be deemed a part of this Agreement as though originally included herein. The remaining provisions of this Agreement shall not be affected by such modification.

## Extent of Agreement

**Section 10.07.** This Agreement and all exhibits to this Agreement constitute the entire agreement between Franchisor and Franchisee and supercedes any and all prior negotiations, understandings, representations, and agreements. Nothing in this or in any related agreement, however, is intended to disclaim the representations Franchisor made in the franchise disclosure document that Franchisor furnished to Franchisee.

Franchisee acknowledges that Franchisee is entering into this Agreement as a result of Franchisee's own independent investigation of Franchisor's franchise business and not as a result of any representations about Franchisor made by Franchisor's shareholders, officers, directors, employees, agents, representatives, independent contractors, or franchisees that are contrary to the terms set forth in this Agreement, or in any disclosure document, prospectus, or other similar document required or permitted to be given to Franchisee pursuant to applicable law.

## Notices

**Section 10.08.** All notices under this Agreement shall be in writing and may be given by personal delivery or by mailing by first class, certified mail, return receipt requested, addressed to Franchisor at Pizza Factory, Inc., 49430 Road 426, Suite D, PO Box 989, Oakhurst, California 93644 or to Franchisee at __________________________________________________, or at such other address as either party may designate in a notice to the other party given in such manner. Any notice given by mail shall be considered given when deposited in the United States mail, postage prepaid, addressed as provided herein.

**Modification of Agreement**

**Section 10.09.** The Franchisee may modify the Franchise Agreement only by mutual consent of the Franchisee and the Franchisor. The modification must be in the form of a writing, signed by the Franchisee and the Franchisor, which states that the writing is an amendment or modification of the existing franchise agreement. The Franchisor may modify the Franchise Agreement in regard to specifications at any time, provided that it gives written notice to the Franchisee. All other modifications of the Franchise Agreement must be mutually consented to by the Franchisor and the Franchisee, in a writing signed by both parties which states that the writing is an amendment or modification of the existing Franchise Agreement. Notwithstanding the foregoing, Franchisor may modify any procedures, specifications, products, supplies, or other operational matters whether or not expressly provided for in this Agreement without the prior approval of Franchisee.

**Venue**

**Section 10.10.** The parties agree that for the purposes of jurisdiction and venue, any and all actions brought regarding the relationship between the Franchisee and the Franchisor, or any and all actions brought to enforce the provisions of this Agreement, shall be brought in a California state court situated in the County of Madera, State of California, having subject matter jurisdiction over such litigation.

**Survivability**

**Section 10.11.** Any provision in this Agreement which imposes an obligation or grants a benefit or right to any party which expressly or necessarily extends beyond termination of this Agreement or the Franchise granted herein, or an obligation for payment of any monetary sum which was accrued prior to termination thereof or any obligation or right which arises upon default of a party or expiration or termination of this Agreement or the Franchise granted herein shall survive termination or expiration of this Agreement or the Franchise.

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**Attorney's Fees**

**Section 10.12.** Upon the occurrence of an event of default by Franchisee or any dispute between Franchisee and Franchisor arising out of or related to this Agreement or the operation of the Franchise Business, Franchisor shall be entitled to recover from Franchisee reasonable attorney's fees and costs incurred by Franchisor as a result of such default or dispute including, but not limited to, fees and costs incurred for enforcement of any rights of Franchisor or collection of any amounts due to Franchisor whether formal court or arbitration proceedings are initiated or not.

Executed at ____________________, ____________________, on the day and year first above written.

| FRANCHISOR: | FRANCHISEE: |
|---|---|

**DO NOT SIGN - EXHIBIT TO DISCLOSURE DOCUMENT**

| | |
|---|---|
| ______________________________ | ______________________________ |
| By: ____________________________<br>[type name and title] | By: ____________________________<br>[type name and title] |
| | ______________________________ |
| | By: ____________________________<br>[type name and title] |

GUARANTY AND ASSUMPTION OF FRANCHISEE'S OBLIGATIONS

This Guaranty is from the undersigned officers, directors, partners or owners of the Franchisee under the Franchise Agreement (the "Agreement") dated _______________between PIZZA FACTORY, INC. ("Franchisor") and __________________, [*if assigned, add*: and assigned to___________________________]("Franchisee").

In consideration of and as an inducement to the execution of the Agreement by Franchisor, each person signing this Guaranty hereby personally and unconditionally, jointly and severally: (i) guarantees to Franchisor and its successors and assigns that the Franchisee will punctually pay when due all amounts required to be paid under the Agreement and perform each and every undertaking, agreement and covenant set forth in the Agreement; and (ii) 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: (i) acceptance and notice of acceptance by Franchisor of the undersigned's obligations under this Guaranty; (ii) notice of demand for payment of any indebtedness or non-performance of any obligation guaranteed by the undersigned; (iii) protest and notice of default to any party with respect to the indebtedness or non-performance of any obligations guaranteed by the undersigned; (iv) any right the undersigned may have to require that an action be brought against the Franchisee or any other person as a condition of the undersigned's liability; and (v) all other notices and legal or equitable defenses to which the undersigned may be entitled in the undersigned's capacity as guarantor.

Each of the undersigned consents and agrees that: (i) the undersigned's direct and immediate liability under this Guaranty shall be joint and several; (ii) the undersigned will make any payment or render any performance required under the Agreement upon demand if the Franchisee fails or refuses punctually to do so; (iii) the undersigned's liability will not be contingent or conditioned upon Franchisor's pursuit of any remedies against the Franchisee or any other person, including any other guarantor; (iv) the undersigned's liability will not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Franchisor may from time to time grant to the Franchisee, any guarantor or to any other person, including, for example, the acceptance of any partial payment or performance of the compromise or release of any claims and no such indulgence shall in any way modify or amend this Guaranty; (v) the undersigned's liability will not be diminished, relieved or otherwise affected by any amendment or modification to the Agreement, or by any change in the name, objects, capital or constitution of the Franchisee, or by any amalgamation, insolvency or bankruptcy of the Franchisee; (vi) this Guaranty will continue and be irrevocable during the term of the Agreement and any renewals thereof and, as to those provisions of the Agreement that survive its termination or expiration, after its termination or expiration; and (vii) that any action to enforce this guarantee may be brought in the same jurisdiction as allowed by law or by the Agreement.

This Guaranty shall be governed by, and construed under, the laws of the State of California, without regard to its conflict of laws principles.

GUARANTORS:

**DO NOT SIGN - EXHIBIT TO FRANCHISE AGREEMENT**

___________________________________ ___________________________________

___________________________________ ___________________________________

(Print Name) (Print Name)

**REMOVE IF NOT APPLICABLE**

GENERAL SECURITY AGREEMENT

This Security Agreement is made and entered into on __________, 20____, by and between________________________________________________________________(“Debtor”), of ______________________________________________, ___________________ County, State of __________________ and Pizza Factory, Inc. (“Secured Party”) of 49430 Road 426, Suite D, Oakhurst, Madera County, State of California, 93644, as follows:

For value received, the Debtor grants to the Secured Party a security interest in the following described property, referred to in this Security Agreement as the Collateral: All inventory, chattel paper, accounts, equipment, general intangibles, products, proceeds, and instruments; whether any of the foregoing is owned now or acquired later, wherever located; all accessions, additions, replacements, and substitutions relating to any of the foregoing; all records of any kind relating to any of the foregoing; all proceeds relating to any of the foregoing (including insurance, general intangibles, and other accounts proceeds) including but not limited to food service and preparation equipment supplies, and restaurant fixtures more particularly described in Exhibit A, attached hereto and incorporated herein by this reference, food service and preparation equipment supplies and restaurant fixtures more particularly described in Exhibit A, attached hereto and incorporated herein by this reference to secure (1) any and all obligations, covenants and promises of the Debtor to the Secured Party as contained in that certain Franchise Agreement [and/or Guarantee and Assumption of Franchisee’s Obligations] dated ____________________________ or any modifications thereof; (2) all expenditures by the Secured Party for taxes, insurance, and repairs to and maintenance of the Collateral incurred by the Secured Party in the collection and enforcement of said obligations, covenants and promises of the Debtor; and (3) all liabilities of the Debtor to the Secured Party now existing or incurred in the future, matured or unmatured, direct or contingent, and any renewals, extensions, and substitutions of those liabilities as created by that certain Franchise Agreement [and/or Guarantee and Assumption of Franchisee’s Obligations] dated ______________________ by and between one or more of the Debtors and the Secured Party.

The Debtor warrants and covenants that the Collateral is to be used in that certain business known as Pizza Factory located at __________________________________________. The collateral will remain at that location.

The Debtor warrants, covenants, and agrees as follows:

**Title**

1. Except for the security interest granted by this Agreement or any security interest granted by the Debtor to a third party who has provided financing either for acquisition of the collateral or financing to establish Debtor’s Pizza Factory franchise business in a reasonable sum, one or more of the Debtors have, or on acquisition will have, full title to the Collateral free from any lien, security interest, encumbrance, or claim, and the Debtor will, at the Debtor’s cost and expense, defend any action that may affect the Secured Party’s security interest in, or the Debtor’s title to, the Collateral.

## Financing Statement

2. Debtor warrants that except for the security interest granted by this Agreement or any security interest granted by the Debtor to a specified third party described in Paragraph 1 hereof, no financing statement covering the Collateral or any part of it or any proceeds of it other than the financing statement executed in conjunction with this Security Agreement is on file in any public office. At the Secured Party's request, the Debtor will execute all necessary financing statements in a form satisfactory to the Secured Party and will further execute all other instruments deemed necessary by the Secured Party. Debtor also authorizes Secured Party to file all necessary financing statements with the required governmental agency in order to perfect the security interest granted by this Agreement and renew the same as necessary to maintain a perfected security interest in the collateral so long as the security interest remains effective.

## Insurance

3. Until final termination of this Security Agreement, the Debtor will, at his/her/its own cost insure the Collateral with companies acceptable to the Secured Party against the casualties and in the amounts that the Secured Party shall reasonably require with a loss payable clause in favor of the Debtor and Secured Party and any of the specified third parties described in Paragraph 1 hereof, as their interests may appear. The Secured Party is authorized to collect sums that may become due under any of the insurance policies and apply them to the obligations secured by this Security Agreement subject to the rights of said third parties, if any. A duplicate copy of each such policy shall be delivered by the Debtor to the Secured Party.

## Protection of Collateral

4. The Debtor will keep the Collateral in good order and repair and will not waste or destroy the Collateral or any part of it. The Debtor will not use the Collateral in violation of any statute or ordinance and the Secured Party will have the right to examine and inspect the Collateral at any reasonable time.

## Taxes and Assessments

5. The Debtor will pay promptly when due all taxes and assessments on the Collateral, or any part of the Collateral, or for its use and operation.

## Location and Identification

6. The Debtor will keep the Collateral separate and identifiable and at the address shown above, and will not remove the Collateral from that address without the Secured Party's written consent, for as long as this Security Agreement remains in effect.

## Security Interest in Proceeds and Accessions

7. The Debtor grants to the Secured Party a security interest in and to all proceeds, increases, substitutions, replacements, additions, and accessories to the Collateral and to any part of the Collateral. This provision shall not be construed to mean that the Debtor is authorized to sell, lease, or dispose of the Collateral without the prior written consent of the Secured Party.

## Reimbursement of Expenses

8. At the option of the Secured Party, the Secured Party may discharge taxes, liens, interest, or perform or cause to be performed for and on behalf of the Debtor any actions and conditions, obligations, or covenants that the Debtor has failed or refused to perform, and may pay for the repair, maintenance, and preservation of the Collateral, and may enter the premises where the Collateral or any part of it is located and cause to be performed as agent and on the account of the Debtor any acts that the Secured Party may deem necessary for the proper repair or maintenance of the Collateral or any part of it. Any and all sums expended by the Secured Party under this Paragraph, including but not limited to, attorney's fees, court costs, agent's fees, or commissions, or any other costs or expenses, shall bear interest from the date of payment at the annual rate of 10% and shall be payable at the place designated in the Debtor's note and shall be secured by this Security Agreement.

## Payment

9. This Debtor will perform those conditions, covenants and obligations secured by this Security Agreement and any renewal or extension of it and any other indebtedness secured by this agreement in accordance with the terms and provisions of the indebtedness and will repay immediately all sums expended by the Secured Party in accordance with the terms and provisions of this Security Agreement. On termination of the Franchise Agreement and full payment by the Debtor of all indebtedness due thereunder and secured by this agreement in accordance with this Security Agreement, this Security Agreement shall expire.

## Change of Residence or Place of Business

10. The Debtor will promptly notify the Secured Party of any change of the Debtor's residence, chief place of business, or place where records concerning the Collateral are kept.

## Attorney-in-Fact

11. Debtor appoints the Secured Party as the Debtor's attorney-in-fact to do any and every act that the Debtor is obligated by this Security Agreement to do, and to exercise all of the rights of the Debtor in the Collateral and to make collections to execute any and all papers and instruments and to do all other things necessary to preserve and protect the Collateral and to make collections and to protect the Secured Party's security interest in the Collateral.

## Time of Performance and Waiver

12. In performing any act under this Security Agreement and the note secured by it, time shall be of the essence. The Secured Party's acceptance of partial or delinquent payments, or the failure of the Secured Party to exercise any right or remedy, shall not constitute a waiver of any obligation of the Debtor or right of the Secured Party and shall not constitute a waiver of any other similar default that occurs later.

## Default

13. The Debtor shall be in default under this Security Agreement on the occurrence of any of the following events or conditions:

(a) Default in the payment or performance of any condition, obligations, covenant, or liability secured by this Security Agreement which is considered a default under the Franchise Agreement.

## Remedies

14. On the occurrence of any event of default, and at any later time, the Secured Party may declare all obligations secured due and payable immediately and may proceed to enforce payment and exercise any and all of the rights and remedies provided by the California Commercial Code as well as other rights and remedies either at law or in equity possessed by the Secured Party.

The Secured Party may require the Debtor to assemble the Collateral and make it available to the Secured Party at any place designated by the Secured Party that is reasonably convenient to both parties. Unless the Collateral is perishable, threatens to decline speedily in value, or is of the type customarily sold on a recognized market, the Secured Party will give the Debtor reasonable notice of the time and place of any public sale or of the time after which any private sale or any other intended disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if the notice is mailed, postage prepaid, to the address of the Debtor shown at the beginning of this Security Agreement at least five days before the time of the sale or disposition. Expenses of retaking, holding, preparing for sale, selling, or the like shall include the Secured Party's reasonable attorney's fees and legal expenses.

## Miscellaneous Provisions

15. (a) California Law to Apply: This Security Agreement shall be construed in accordance with the California Commercial Code and other applicable laws of the State of California, and all obligations of the parties created under this Security Agreement are performable in Madera County, California.

(b) Parties Bound: This Security Agreement shall be binding on and inure to the benefit of the parties and their respective heirs, executors, administrators, legal representatives, successors, and assigns as permitted by this Security Agreement.

(c) Attorney's Fees: Upon any legal action based in contract law be commenced or should any dispute arise between the parties to this Security Agreement concerning the Collateral, this Security Agreement, or the rights and duties of either party in relation to them, the prevailing party shall be entitled to a reasonable sum as reimbursement for his/her/its attorney's fees and legal expenses, including fees and costs incurred for enforcement of any rights of the prevailing party or collection of any amounts due the prevailing party whether formal court or arbitration proceedings are initiated or not.

(d) Legal Construction: In case any one or more of the provisions contained in this Security Agreement shall for any reason be held invalid, illegal, or unenforceable in any respect, the invalidity, illegality, or unenforceability of that provision shall not affect any other provision of this Security Agreement, and this Security Agreement shall be construed as if the invalid, illegal, or unenforceable provision had never been contained in it.

(e) Prior Agreements Superseded: This Security Agreement constitutes the only agreement of the parties and supersedes any prior understandings or written or oral agreements between the parties respecting the subject matter of this Security Agreement except for those agreements which Debtor has signed as part of the purchase of a Pizza Factory franchise, and this Security Agreement shall be interpreted as providing additional and/or supplemental rights, duties and obligations of the respective parties as set forth in said other agreements.

(f) Definitions: All terms used in this Security Agreement that area defined in the California Commercial Code shall have the same meaning in this Security Agreement as in the Code.

| | |
|---|---|
| DEBTOR: | SECURED PARTY: |
| ________________________ | PIZZA FACTORY, INC. |

**DO NOT SIGN - EXHIBIT TO FRANCHISE AGREEMENT**

| | |
|---|---|
| ________________________ | By: __________________________ |
| ________________________ | |
| ________________________ | |

[redacted]

## UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER [optional]

B. SEND ACKNOWLEDGEMENT TO: (Name and Address)

PIZZA FACTORY, INC.
49430 ROAD 426, SUITE D
OAKHURST,CA 93644

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME – insert only one debtor name (1a or 1b) – do not abbreviate or combine names

| | | | | | |
|---|---|---|---|---|---|
| 1a. ORGANIZATION'S NAME<br>PIZZA FACTORY FRANCHISEE | | | | | |
| OR 1b. INDIVIDUAL'S LAST NAME | FIRST NAME | MIDDLE NAME | | SUFFIX | |
| 1c. MAILING ADDRESS | CITY | STATE | POSTAL CODE | COUNTRY | |
| [redacted] ADD'L INFO RE ORGANIZATION DEBTOR | 1e. TYPE OF ORGANIZATION | 1f. JURISDICTION OF ORGANIZATION | 1g. ORGANIZATIONAL ID#, if any | ☐ NONE | |

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME – insert only one debtor name (2a or 2b) – do not abbreviate or combine names

| | | | | | |
|---|---|---|---|---|---|
| 2a. ORGANIZATION'S NAME | | | | | |
| OR 2b. INDIVIDUAL'S LAST NAME | FIRST NAME | MIDDLE NAME | | SUFFIX | |
| 2c. MAILING ADDRESS | CITY | STATE | POSTAL CODE | COUNTRY | |
| [redacted] ADD'L INFO RE ORGANIZATION DEBTOR | 2e. TYPE OF ORGANIZATION | 2f. JURISDICTION OF ORGANIZATION | 2g. ORGANIZATIONAL ID#, if any | ☐ NONE | |

3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) – insert only one secured party name (3a or 3b)

| | | | | |
|---|---|---|---|---|
| 3a. ORGANIZATION'S NAME<br>PIZZA FACTORY, INC. | | | | |
| OR 3b. INDIVIDUAL'S LAST NAME | FIRST NAME | MIDDLE NAME | | SUFFIX |
| 3c. MAILING ADDRESS<br>PO BOX 989 | CITY<br>OAKHURST | STATE<br>CA | POSTAL CODE<br>93644 | COUNTRY<br>US |

4. This FINANCING STATEMENT covers the following collateral:

ALL INVENTORY, CHATTEL PAPER, ACCOUNTS, EQUIPMENT, GENERAL INTANGIBLES, PRODUCTS, PROCEEDS, AND INSTRUMENTS; WHETHER ANY OF THE FOREGOING IS OWNED NOW OR ACQUIRED LATER, WHEREVER LOCATED; ALL ACCESSIONS, ADDITIONS, REPLACEMENTS, AND SUBSTITUTIONS RELATING TO ANY OF THE FOREGOING; ALL RECORDS OF ANY KIND RELATING TO ANY OF THE FOREGOING; ALL PROCEEDS RELATING TO ANY OF THE FOREGOING (INCLUDING INSURANCE, GENERAL INTANGIBLES, AND OTHER ACCOUNTS PROCEEDS) INCLUDING BUT NOT LIMITED TO FOOD SERVICE AND PREPARATION EQUIPMENT SUPPLIES AND RESTAURANT FIXTURES MORE PARTICULARLY DESCRIBED IN EXHIBIT A, ATTACHED HERETO AND INCORPORATED HEREIN BY THIS REFERENCE.

5. ALTERNATIVE DESIGNATION [if applicable]: ☐ LESSEE/LESSOR ☐ CONSIGNEE/CONSIGNOR ☐ BAILEE/BAILOR ☐ SELLER/BUYER ☐ AG. LIEN ☐ NON-UCC FILING

6. ☐ This FINANCING STATEMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS. Attach Addendum [if applicable]

7. Check to REQUEST SEARCH REPORT(S) on Debtor(s) [ADDITIONAL FEE] [optional] ☐ All Debtors ☐ Debtor 1 ☐ Debtor 2

8. OPTIONAL FILER REFERENCE DATA

FILING OFFICE COPY - NATIONAL UCC FINANCING STATEMENT (FORM UCC1) - CALIFORNIA (REV 01/01/08

**CHECKLIST FOR ______________ PIZZA FACTORY**
**Franchisee __________________________**
**Address of Location ___________________________________________**
**Mailing Address before opening __________________________________**
**Phone #____________ Cell # ________________ Email _________________**

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**DATE**

____1. Disclosure Document back sheet signed
____2. Franchise Agreement signed with remainder amount owed
____3. Copy of signed lease in file
____4. Blueprint of building (disk and hard copy)
____5. ABC contacted (beer & wine license must be issued before store opens)
____6. Business licenses obtained - Set up Business Checking Account
Electronic Transfer Form Signed & filed with Corporate __________
Fed Tax I.D. #______ E.D.D.# _________ State Tax Form# __________
Health Permit #_______City License # ___________
____7. DBA in newspaper
____8. Accountant selected, information given to Pizza Factory Office
____9. Insurance (liability/workman's comp/delivery), information given to Pizza Factory Office
____10. Equipment ordered, signed off by corporate & copy of equipment list in file
____11. Captive Air Hood ordered and signed off by corporate (if applicable)
____12. Menus ordered & approved
____13. Coke equipment & ice machine ordered
____14. Outdoor sign ordered & approved & signed off by corporate
____15. Speedline POS system ordered & approved (Phone lines in place)
____16. Vantiv Bank Service & RTO obtained
____17. Food Distributor contacted & given credit information
____18. Décor of store approved & signed off by corporate includes colors, tables, flooring, countertops, circle logo with tag lines
____19. Food Photos/ banners up (Coming Soon and Now Open)
____20. Crew Hired
____21. Uniforms ordered
____22. Sierra Seasoning ordered
____23. Video Games ordered
____24. Opening flyers, business cards, opening mailers approved and printed
____25. Training Sheet signed & filed at corporate
____26. Opening Date of Unit: ____________________
____27. Store checked by corporate for equipment in place & operating
____28. Store checked by corporate for all licenses to be approved
____29. Store organized & ready to receive food stock
____30. Plaque/Sign posted regarding independent Franchisee with name, address, and telephone number of Franchisee
____31. Gmail & Facebook account set up for store
____32. Textmunication set up
____33. Punchh set up

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# GENERAL RELEASE

This General Release (the "Release") is given by ______________________________, ("Franchisee") Pizza Factory Franchisee of that certain Pizza Factory Franchise located at ____________________________________________________ ("Franchise Outlet") to and for the benefit of Pizza Factory, Inc., A California Corporation ("Pizza Factory") and is made with respect to the following facts:

A. On or about ___________________, Franchisee and Pizza Factory entered into a Franchise Agreement whereby Franchisee was granted a license to operate the Franchise Outlet;

B. Franchisee now wishes to transfer or assign within the meaning of Section 8 of the Franchise Agreement all or some of its interest in and to the Franchise Outlet to _________________________.

C. Section 8 of the Franchise Agreement provides, among other things, that as a condition of Pizza Factory approving the assignment now desired by Franchisee, Franchisee is required to sign a General Release of claims it may have against Pizza Factory.

FOR THE PURPOSE OF SATISFYING THE CONDITIONS OF SECTION 8 OF THE FRANCHISE AGREEMENT, FRANCHISEE HEREBY PROMISES, AGREES AND COVENANTS AS FOLLOWS:

1. Franchisee does hereby agree to fully, finally and forever release, quitclaim and discharge Pizza Factory as well as its shareholders, officers, employees, attorneys, agents, and any or all of them, from any and all claims, liabilities, demands, debts, accounts, obligations, actions and causes of action, known or unknown, at law or in equity, including any successors or assigns to such claims, liabilities, demands, debts, accounts, obligations, actions and causes of action, which Franchisee may have or claim to have or to have had, arising at any time in the unlimited past to and including the date of this Agreement, including but without limiting the generality of the foregoing, any and all matters arising out of or in any manner whatsoever connected with the Franchise Agreement or Franchise Outlet EXCEPT as prohibited by state or federal laws, rules and regulations in effect as of the date of this Release and applicable in the state in which the Franchise Outlet is located to the extent applicable to the franchisor/franchisee relationship referred to above including, but not limited to, the California Franchise Investment Law and/or the California Franchise Relations Act.

2. Except as to any matter expressly excluded from the release set out in paragraph 1, hereof, Franchisee further acknowledges and agrees on behalf of himself/herself/themselves/itself that this Release shall operate as a complete bar to any and all litigation which Franchisee may initiate against Franchisor arising out of or relating to the Franchise Agreement or Franchise Outlet.

3. Franchisee acknowledges and agrees that the release given herein applies to all claims for injuries, damages, losses or of any other nature, whether those injuries, damages, losses are known or unknown, foreseen or unforeseen, or patent or latent which Franchisee may have against Franchisor and Franchisee hereby waives the application of any provision which states

otherwise except any applicable provision regulating the offering and sale of franchises and that Franchisee understands and acknowledges the significance and consequence of this waiver is that even if he/she/it should eventually suffer additional damages arising out of the above-referenced Franchise Agreement and Franchise Outlet or any other matter arising out of or relating to said Franchise Outlet, he/she/it will not be able to make any claims for those damages except as expressly reserved by applicable provisions regulating the offer and sale of franchises. Furthermore, Franchisee acknowledges that he/she/it intend these consequences even as to claims for damages that may exist as of the date of this Release, but which Franchisee does not know exist, and which, if known, would materially affect Franchisees' decision to execute this Release, regardless of whether Franchisee's lack of knowledge is a result of ignorance, oversight, error negligence, or any other cause.

4. Franchisee hereby agrees that this Agreement and all of its terms shall be binding upon, if applicable, his/hers/its/their officers, shareholders, heirs, personal representatives, executors, administrators, and as to the claims and other matter released by this instrument, assigns and successors in interest thereof.

5. This instrument and any other instrument specifically referred to herein constitute and contain the entire agreement and understanding between the parties concerning the subject matter hereof. This instrument supersedes and replaces all prior negotiations, proposed agreements or agreements, whether written or oral. Franchisee acknowledges that no other party or any agent or attorney of any party has made any promise, representation or warranty whatsoever, expressed or implied, written or oral, not contained herein concerning the subject matter hereof to induce the execution of this instrument and the other documents herein referred to. Franchisee further acknowledges that he/she/they/it has not executed this instrument or any other document in reliance on any promise, representation or warranty not contained herein.

6. If any action at law, in equity, in arbitration, or otherwise is brought to enforce or interpret the provisions of this Release or any agreement referred to herein or arising out of any of them, the prevailing party will be entitled to all expenses, costs and reasonable attorneys fees incurred in such action, including, but not by way of limitation, those incurred in enforcement or collection of any judgment or award or any proceeding in bankruptcy court or probate court.

7. Franchisee represents and acknowledges that, in entering into this Release he/she/they/it was represented by independent counsel or had the opportunity to be so represented and had full opportunity to confer with and seek the advice of said counsel and that he/she/they/it enter into this Release without any reservation whatsoever.

IN WITNESS WHEREOF, Franchisee set his/her/their/its hands on the day or days and year written below.

Dated: ________________________

**DO NOT SIGN - EXHIBIT TO FRANCHISE AGREEMENT**

__________________________________
FRANCHISEE

__________________________________
Print Name and Title

__________________________________
FRANCHISEE

__________________________________
Print Name and Title

# OPTION PURCHASE AGREEMENT AND JOINT ESCROW INSTRUCTIONS

Date ___________________, at ______________________________________________________________, California.

1. **RECITALS:**

A. THIS IS AN AGREEMENT BY AND BETWEEN PIZZA FACTORY, INC., A Corporation or its assignee of this Agreement ("Buyer") and _______________________________ (Pizza Factory Franchisee - "Seller")

B. THE BUSINESS TO BE ACQUIRED is known as ______________________________ situated in _____________________, County of ________________, California, ("Business"), described as a Business.

C. THE PURCHASE PRICE shall be the fair market value of the Business and all associated assets except any cash accounts plus inventory at Seller's costs which Buyer chooses to acquire (all such amounts to be supplied to Escrow Holder at least 30 days prior to Close of Escrow) or as may be mutually agreed by Seller and Buyer.

D. CLOSE OF ESCROW shall occur on or before 120 days from exercise of the option to purchase by Buyer or as may be mutually agreed between Buyer and Seller.

E. The terms of this Agreement shall include the terms and provisions of Section 9.03 of that certain Franchise Agreement executed by and between the parties hereto, or their successors and assigns, and said terms and provisions are hereby incorporated herein by this reference. If any term or provision of this Agreement is in conflict with any term or provision of said Section 9.03, then the terms and provisions of the said Section 9.03 shall control.

2. **PAYMENT OF PURCHASE PRICE**: Obtaining deposit, down payment and closing costs **is not a contingency**. Buyer represents that funds will be good when deposited with Escrow Holder.

A. INITIAL DEPOSIT: Buyer has given a deposit in the amount of ................................ $ 1,000.00 by check made payable to and deposited with Escrow Holder.

B. ☒ ALL CASH OFFER (if checked): No loan is needed to purchase the Business.

C. Less any credit Due Buyer from Seller per terms of Option or Franchise Agreement (Subject to adjustments through and including Close of Escrow)................................................................ <$___________ >

D. ADDITIONAL FINANCING TERMS:................................................................ $__________
Upon Buyer executing and delivering this Agreement and deposit to escrow, Seller shall sign within 3 days of notice of same. Buyer shall be credited all amounts owed to it by Seller under Franchise Agreement.

E. **BALANCE OF PURCHASE PRICE** (not including costs of obtaining loans and other closing costs) in the amount of $__________ (to be supplied after Purchase Price is determined) to be deposited with Escrow Holder within sufficient time to close.

F. **PURCHASE PRICE** (TOTAL)................................................................$__________

Property Address: _______________________________________________ Date:_________________

3. **CLOSING AND POSSESSION**:

Possession shall be delivered to Buyer at 12:01 AM on the date of Close of Escrow.

At Close of Escrow, Seller assigns to Buyer any assignable warranty rights for items included in the sale and shall provide any available Copies of such warranties.

At Close of Escrow, unless otherwise agreed in writing, Seller shall provide keys and/or means to operate all locks, mailboxes, security systems and alarms.

Exhibit 5
Franchise Agreement

4. **ESCROW HOLDER**: ☒Buyer ☒Seller shall split escrow fees 50/50. Escrow Holder shall be reputable escrow/title company in area able to process bulk sales.

5. **FORM OF OWNERSHIP**: The business shall be owned in the form designated in Buyer's escrow instructions.

6. **ASSETS TRANSFERRED**: With the exception of cash or cash equivalents on deposit in any financial institution, and assets excluded below, Buyer is purchasing all assets of the Business, including but not limited to: inventory for sale, machinery, furniture, fixtures and other equipment, leasehold improvements, transferable government licenses and permits, customer lists, fictitious business names, trade names and trademarks, logos, copyrights and patents, signs and advertising materials, telephone and fax numbers, web sites, URL names, e-mail addresses, accounts receivable, vendor lists and catalogs, goodwill, agreements not to compete, franchise agreements, distribution rights, employee lists and information, computer and customer software, and customer deposits. All items transferred that are leased are subject to the terms of existing lease(s).

☐ Other ________________________________________________________________________

Excluded asset: Any asset including leased assets, indicated by Buyer in writing and deposited into Escrow.

7. **LIABILITIES TRANSFERRED**: Buyer is NOT purchasing, acquiring or taking subject to any secured or unsecured liabilities of the Business and any liens or encumbrances on any of the assets to be transferred shall be released through escrow and prior to close of escrow. If release of said liens or encumbrances are not otherwise provided for by Seller, said liens and encumbrances shall be paid or provided for from any amounts held in Escrow and due to Seller.

8. **INVENTORY** (if checked). ☒ Buyer has the right to confirm the inventory within 1 **Day** Prior to Close of Escrow. The purchase price shall be adjusted to reflect the remaining inventory which Buyer wishes to acquire and Seller shall remove the remaining inventory within 24 hours after Close of Escrow. The adjustment is to be added to or subtracted from the purchase price.

9. **SELLER DISCLOSURE; BUYER INVESTIGATION**:

Seller shall, within the time specified in paragraph 24, provide to Buyer, to Buyer's counsel, accountant or other designated representative, the lists of items or documents, or Copies thereof, for the items checked below. For each item, as applicable, Seller shall include a statement of whether the item is owned or leased and whether Seller has any legal, proprietary interest, or intellectual property rights in, or restrictions on, the item. Buyer, within the time specified in paragraph 24, shall then investigate the items provided to Buyer and take the action specified in paragraph 24.

☐ Inventory, including work in progress ☐ Signs and advertising materials

Property Address:__________________________________________ Date:_________________________

- ☒ Machinery
- ☒ Furniture, fixtures and other equipment
- ☒ Other personal property
- ☒ Leasehold improvements
- ☒ Government licenses and permits
- ☐ Customer lists
- ☒ Fictitious business name statements
- ☐ Trade names and trademarks
- ☐ Logo
- ☐ Copyrights and patents
- ☒ Schedule of accounts receivable
- ☐ Business appraisal
- ☐ Other Assets: ________________________

____________________________________________
____________________________________________

- ☒ Schedule of accounts payable prior 3 years
- ☒ Other liabilities ______________________

____________________________________________

____________________________________________

- ☒ Employee estoppel certificates
- ☒ Sales tax returns for prior 3 years
- ☒ Federal and state income tax returns for prior 3 years

(schedule C only)

- ☒ Telephone and fax numbers
- ☒ Web sites, URL names and e-mail addresses
- ☒ Vendor lists and catalogs
- ☒ Goodwill
- ☒ Agreements not to compete
- ☐ Franchise Agreements
- ☐ Distribution rights
- ☒ Employee lists and information
- ☒ Computer and customer software
- ☐ Customer deposits
- ☒ Lease
- ☒ Service, maintenance and advertising agreements
- ☒ Proposed allocation of purchase price among assets
- ☒ Financial statements for prior 3 years
- ☒ Employment withholding returns for

**SELLER REPRESENTS THAT (i) THE BOOKS AND RECORDS THAT SELLER PROVIDES ARE THOSE MAINTAINED IN THE ORDINARY AND NORMAL COURSE OF BUSINESS AND AS REQUIRED BY THE FRANCHISE AGREEMENT WITH BUYER; AND (ii) FEDERAL AND STATE TAX RETURNS THAT SELLER PROVIDES ARE COPIES OF THOSE FILED WITH THE APPLICABLE GOVERNMENTAL AGENCIES**.

10. **CONSULTING AND TRAINING**: Seller shall consult with Buyer to show Buyer methods used in operating the Business at the option of Buyer. Seller shall provide consulting services for a period of 30 **Days** After Close of Escrow at no cost to Buyer or its assignee, which services shall not exceed a total of 20 hours. Seller shall not be responsible for training Buyer in the basics of operating a business of the type being sold pursuant to this Agreement, but only to alert Buyer to the nuances, as determined by Seller, of operating this type of business.

11. ☒ **AGREEMENT NOT TO COMPETE**: (If checked): Pursuant to Section 4.17 of the Franchise Agreement, and as a material part of the consideration of the sale, Seller agrees not to operate or engage in, directly or indirectly, whether as a principal, agent, manager, employee, owner, member, partners, stockholder, director or officer of a corporation, trustee, consultant, or any other capacity whatsoever, any business the same as, or substantially similar to, or in competition with the Business within a radius of five (5) miles from the current location of the Business or any PIZZA FACTORY restaurant for a period of eighteen (18) months from the date of final transfer of the business. This provision is supplemental to and/or in addition to any other obligation which Seller has to Buyer regarding the operation of a similar business as contained in the Franchise Agreement by and between Seller and Buyer.

12. **LEASE**: (If applicable) The sale is contingent upon Buyer obtaining, prior to close of escrow, the assignment, new lease, option to extend, sublease or other lease as indicated below. Buyer shall submit an application for such lease to Seller's landlord or Seller, as applicable, within 15 Days after execution of this agreement. Seller shall use his best efforts and execute any and all documents reasonably necessary to secure the assignment of the lease or a new lease for Buyer.

A. ☒ An assignment of Seller's existing lease.

B. ☒ An new lease with Seller's landlord, on terms acceptable to Buyer, to become effective concurrently with the Close of Escrow.

C. ☒ An option to extend Seller's present lease for an additional 10 year(s) , on terms acceptable to Buyer and Seller's landlord.

D. ☒ Other: If Seller owns property, new lease at fair market rent per standard commercial lease or at option of Buyer, purchase of real property at fair market value.

13. **PURCHASE/LEASE OF REAL PROPERTY** (If applicable): If Seller owns the real property in which the Business operates, Seller agrees to sell said Real Property to Buyer, at Buyer's option, for the Fair Market Value of said Property determined according to the procedure utilized to determine the Fair Market Value of the Business as

contained in Section 9.03 of the Franchise Agreement and pursuant to the customary terms and provisions for the sale of Commercial Property in the area where the Property is located. Otherwise, Seller agrees to lease to Buyer said Real Property for the operation of the Business for the Fair Market Rental Value as determined according to the same procedures utilized to determine the Fair Market Value of the Business as provided for in Section 9.03 of the Franchise Agreement and according to the customary terms and provisions normally utilized for the rental of Commercial Real Property in the area where the Business is situated. The Parties agree that the "customary terms" referred to above may be established through mutual agreement of the Parties or based upon the information/testimony of experts in the applicable fields including, but not limited to, business brokers, rental agents, real estate agents, escrow officers and other persons having such specialized knowledge and training.

14. **LICENSES AND OTHER CONTINGENCIES**:

A. **LIQUOR**: If transfer of a liquor license is included in the sale, Seller shall comply with all applicable laws and regulations concerning such transfer. Escrow shall not close, and no funds shall be transferred to Seller, until Escrow Holder is advised by the applicable governmental agencies that the license transfer has been approved. The costs of such transfer shall be paid split 50/50.

B. **OTHER**: (If checked): This sale is contingent upon Buyer's obtaining, prior to the Close of Escrow, the following:

1 ☒ City license: as applicable.

2 ☒ State license: as applicable.

3 ☒ Other: required licenses as applicable.

4 ☒ Other: Release by Seller of Pizza Factory, Inc. (attached as Exhibit B )

15. **RESERVED**____________________________________________________________________

16. **SALES AND USE TAX**: Seller shall pay any sales or use tax payable as a result of the sale under any Law and shall furnish Buyer with Resale Certificates for any items bought by Buyer for resale.

17. **PRORATIONS**: Personal property taxes, business taxes, rents, interest, insurance acceptable to Buyer, and prepaid deposits shall be prorated as of Close of Escrow.

18. **TAX CLEARANCES**: Seller shall deliver to Escrow Holder proof that city (if applicable) state and federal income tax withholdings are current. Amounts withheld but not yet payable will be transferred in escrow or credited to Buyer. Seller shall also deliver to Escrow Holder any clearance documents available from any governmental agency regulating sales tax, employee related payments or taxes, use taxes, S.D.I. unemployment insurance and FICA withholdings. No funds shall be released from escrow before such delivery.

19. **NOTICES OF VIOLATIONS**: Seller represents that, to the best of Seller's knowledge, no notices of violations of federal state or local statute(s), law(s) or regulation(s) exist, or are filed or issued, that affect the operation of the

Business, including any such notices regarding the real property in which the Business is situated ("Notices"), EXCEPT:

If prior to Close of Escrow, Seller receives or becomes aware of any Notices filed against or affecting the Business, Seller shall immediately notify Buyer.

20. **BULK TRANSFER**: Seller shall comply with the Bulk Sales provision of Division 6 of the Uniform Commercial Code, Bulk Transfer Section, as the law applies within the Seller's state.

21. **TITLE**: Seller shall furnish to Buyer bills of sale and other instruments of transfer or assignment necessary to carry out this Agreement.

22. **LIENS; ENCUMBRANCES; RESTRICTIONS**: Seller warrants that, to the best of Seller's knowledge, there are no undisclosed liens, encumbrances or restrictions upon the Business and Seller shall pay through Escrow or provide for to the satisfaction of Buyer any liens, encumbrances or debts associated with arising out of Seller's operation of the Business or secured by the assets to be transferred to Seller.

23. **OPERATION OF BUSINESS DURING ESCROW**: During the escrow period, Seller shall: (i) operate the Business diligently and in substantially the same manner as prior to this offer; (ii) maintain the goodwill of the Business; (iii) keep all equipment and personal property in normal working order; and timely payment of all accounts payable's lease payments, taxes and other expenses incurred.

24. **SELLER REPRESENTATIONS**: Seller's representations and warranties set forth herein, or in any written statements delivered to Buyer, shall be true and correct at Close of Escrow, and shall survive the transfer of ownership of the Business.

25. **TIME PERIODS; REMOVAL OF CONTINGENCIES; CANCELLATION RIGHTS: The following time periods may be extended, altered, modified or changed only by mutual written agreement. Any removal of contingencies or cancellation under this paragraph must be in writing (C.A.R. Form RRCR).**

A. **SELLER HAS**: **30 Days** after Buyer exercises the Option to Purchase to deliver to Buyer all reports, disclosures and information for which Seller is responsible under paragraph 9.

B. **BUYER SHALL**, within the times set forth below, take the specified action and, in writing, either remove the applicable contingency or cancel this Agreement:

(1) **BUYER HAS: 30 Days** after Seller executes this Agreement to complete all buyer investigations, unless otherwise agreed in 25 B(2); approve all disclosures, reports, and review of reports and other applicable information, for which Buyer is responsible or which Buyer receives from Seller; and approve all matters affecting the Business.

C. **RESERVED**.

D. **EFFECT OF BUYER'S REMOVAL OF CONTINGENCIES**: If Buyer removes, in writing, any contingency or cancellation rights, unless otherwise specified in a separate written agreement between Buyer and Seller, Buyer shall conclusively be deemed to have: (i) completed all buyer investigations and review of reports and other applicable information and disclosures pertaining to that contingency or cancellation right; (ii) elected to proceed with the transaction; and (iii) assumed all liability, responsibility and expense for repairs or corrections pertaining to that contingency or cancellation right, or for inability to obtain financing.

E. **EFFECT OF CANCELLATION ON DEPOSITS**: If Buyer gives written notice of cancellation pursuant to rights duly exercised under the terms of this Agreement, Buyer and Seller agree to Sign mutual instructions to cancel the sale and escrow and release deposits, less fees and costs, to the party entitled to the funds. Fees and costs may be payable to service providers and vendors for services and products provided during escrow. **Release of funds will require mutual Signed release instructions from Buyer and Seller, judicial decision or arbitration award.**

26. **ENVIRONMENTAL HAZARD CONSULTATION**: Buyer and Seller acknowledge (i) Federal, state and local legislation impose liability upon existing and former owners and users of real property, in applicable situations, for certain legislatively defined, environmentally hazardous substances; (ii) Broker(s) has/have made no representation concerning the applicability of any such Law to this transaction or to Buyer or to Seller, except as otherwise indicated in this Agreement; (iii) Broker(s) has/have made no representation concerning the existence, testing, discovery, location and evaluation of/for, and risks posed by, environmentally hazardous substances, if any, located on or potentially affecting the Business; and (iv) Buyer and Seller are each advised to consult with technical and legal experts concerning the existence, testing, discovery, location and evaluation of/for, and risks posed by, environmentally hazardous substances, if any, located on or potentially affecting the Business.

27. **AMERICANS WITH DISABILITIES ACT**: The Americans With Disabilities Act ("ADA") and applicable state laws prohibits discrimination against individuals with disabilities. The ADA and applicable state laws affects almost all commercial facilities and public accommodations. The ADA and applicable state laws can require, among other things, that buildings be made readily accessible to the disabled. Different requirements apply to new construction, alterations to existing buildings, and removal of barriers in existing buildings. Compliance with the ADA and applicable state laws may require significant costs. Monetary and injunctive remedies may be incurred if the Business is not in compliance. Buyer is required to make all modifications, alterations or repairs necessary to comply with the ADA or applicable state laws prior to Close of Escrow. Buyer and Seller are advised to contact an attorney, contractor, architect, engineer or other qualified professional of Buyer or Seller's own choosing to determine to what degree, if any, the ADA or applicable state laws impact that principal or this transaction.

28. **RESERVED**.

29. **DISPUTE RESOLUTION**:

**A.** **MEDIATION**: Buyer and Seller agree to mediate any dispute or claim arising between them out of this Agreement, or any resulting transaction, before resorting to arbitration or court action. Mediation fees, if any, shall be divided equally among the parties involved. If, for any dispute or claim to which this paragraph applies, any party commences an action without first attempting to resolve the matter through mediation, or refuses to mediate after a request has been made, then that party shall not be entitled to recover attorney fees, even if they would otherwise be available to that party in any such action.

**B.** **RESERVED**.

30. **RESERVED**.

31. **EQUAL OPPORTUNITY**: The Business is sold in compliance with federal, state and local anti-discrimination Laws.

32. **ATTORNEY FEES**: In any action, proceeding, or arbitration between Buyer and Seller arising out of this Agreement, the prevailing Buyer or Seller shall be entitled to reasonable attorney fees and costs from the non-prevailing Buyer or Seller, except as provided in paragraph 29 A.

33. **RESERVED**.

34. **TIME OF ESSENCE; ENTIRE CONTRACT; CHANGES**: Time is of the essence. All understandings between the parties are incorporated in this Agreement, Its terms are intended by the parties as a final, complete and exclusive expression of their Agreement with respect to its subject matter, and may not be contradicted by evidence of any prior agreement or contemporaneous oral agreement. If any provision of this Agreement is held to be ineffective or invalid, the remaining provisions will nevertheless be given full force and effect. **Neither this Agreement nor any provision in it may be extended, amended, modified, altered or changed, except in writing Signed by Buyer and Seller. Nothing in this Agreement affects or otherwise alters the rights, obligations and duties of either Buyer or Seller in the Pizza Factory Franchise Agreement which currently exists by and between Buyer and Seller except as expressly stated.**

35. **ASSIGNMENT**: Buyer may assign all or any part of Buyer's interest in this Agreement without first having obtained any approval by Seller. Such assignment shall not relieve Buyer of Buyer's obligations pursuant to this Agreement.

36. **SUCCESSORS AND ASSIGNS**: This Agreement shall be binding upon, and inure to the benefit of, Buyer and Seller and their respective successors and assigns, except as otherwise provided herein.

37. **COPIES**: Seller and Buyer each represent that Copies of all reports, documents, certificates, approvals, and other documents that are furnished to the other are true, correct and unaltered Copies of the original documents, if the originals are in the possession of the furnishing party.

38. **GOVERNING LAW AND VENUE**: This Agreement shall be governed by the Laws of the state of California. The parties agree that for the purposes of jurisdiction and venue, any and all actions brought regarding the relationship between the Franchisee and the Franchisor, or any and all actions brought to enforce the provisions of this agreement, shall be brought in a California state court situated in the County of Madera, State of California, having subject matter jurisdiction over such litigation.

39. **AUTHORITY**: Any person(s) signing this Agreement represent(s) that such person(s) has full power and authority to bind that person's principal, and that the designated Buyer and Seller have full authority to enter into and perform this Agreement. Entering into this Agreement and the completion of the obligations pursuant to this Agreement, do no violate any Articles of Incorporation, Articles or Organization, Bylaws, Operating Agreement, Partnership Agreement or other document governing the activity of either Buyer or Seller.

40. **OTHER TERMS AND CONDITIONS**, including attached supplements:

A. All amounts due and payable by Seller to Buyer shall be deducted from the purchase price (See Par. 2.C.). Seller shall provide said information to the Escrow Holder as soon as reasonably practicable and no later than five (5) days prior to Close of Escrow. If there are any disputes between Buyer and Seller regarding said amounts, such disputes shall not delay the Close of Escrow. Rather, the Escrow Holder shall hold any disputed amount and shall thereafter distribute said amount according to the provisions of any court judgment, arbitration award or mutual agreement of the parties.

B. All amounts owed by Seller to any vendor, creditor or third party related to the Business shall be either paid in full or properly provided for with Buyer's written approval. Seller shall provide said information to the Escrow Holder as soon as reasonably practicable and no later than five (5) days prior to Close of Escrow. If there are any disputes between Buyer and Seller regarding said amounts, such disputes shall not delay the Close of Escrow. Rather, the Escrow Holder shall hold any disputed amount and shall thereafter distribute said amount according to the provisions of any court judgment, arbitration award or mutual agreement of the parties.

C. Any action to enforce this Agreement shall proceed in the Superior Court of California, County of Madera.

D. Inventory purchased at Close by Buyer shall be valued at Seller's actual cost. Buyer may accept any or all of the inventory but is not obligated to purchase any of the inventory. Any inventory not purchased by Buyer shall be promptly removed from the premises by Seller within 24 hours of Close of Escrow.

E. Any Asset not being transferred to Buyer shall be promptly removed from premises by Seller within twenty-four (24) hours of Close of Escrow.

F. Other applicable terms including determination of the purchase price will be pursuant to Section 9.03 of the Franchise Agreement between Buyer and Seller.

41. **RISK OF LOSS**: Any risk of loss to the Business shall be borne by Seller until ownership has been transferred to Buyer.

42. **DAMAGE OR DESTRUCTION**: If the Business or real property in which the Business is situated is destroyed or materially damaged prior to Close of Escrow, then, on demand of Buyer, any deposit made by Buyer shall be returned to Buyer and this Agreement shall terminate.

43. **INDEMNIFICATION**: Unless otherwise expressly provided herein, upon completion of sale, Seller agrees to indemnify, defend and hold Buyer harmless from all liability resulting from loss, damage or injury to persons or property in any manner arising out of or incident to the operation of the Business prior to transfer to Buyer. Buyer agrees to indemnify, defend and hold Seller harmless from all liability resulting from loss, damage or injury to persons or property in any manner arising out of or incident to the operation of the Business after transfer to Buyer.

44. **NOTICES**: Whenever notice is given under this Agreement, each notice shall be in writing and shall be delivered personally, by facsimile or by mail, postage prepaid. Notice shall be delivered to the address set forth below the recipient's signature of acceptance. Either party may change its notice address by providing notice to the other party.

45. **DEFINITIONS**: As used in this Agreement:

A. "**Acceptance**" means the time the offer or final counter offer is accepted in writing by a party and is delivered and personally received by the other party or that party's authorized agent in accordance with the terms of this offer or a final counter offer.

B. "**Agreement**" means the terms and conditions of this accepted Business Purchase Agreement and any accepted counter offer and addenda.

C. "**C.A.R. Form**" means the specific form referenced or another comparable form agreed to by the parties.

D. "**Close of Escrow**" means the date the grant deed, or other evidence of transfer of title, is recorded. If the scheduled close of escrow falls on a Saturday, Sunday or legal holiday, then close of escrow shall be the next business day after the scheduled close of escrow date.

E. "**Copy**" means copy by any means including photocopy, NCR, facsimile and electronic.

F. "**Days**" means calendar days, unless otherwise required by Law.

G. "**Days After**" means the specified number of calendar days after the occurrence of the event specified, not counting the calendar date on which the specified event occurs, and ending at 11:59 PM on the final day.

H. "**Days Prior**" means the specified number of calendar days before the occurrence of the event specified, not counting the calendar date on which the specified event is scheduled to occur.

I. "**Electronic Copy" or "Electronic Signature**" means, as applicable, an electronic copy or signature complying with California Law. Buyer and Seller agree that electronic means will not be used by either one to modify or alter the content or integrity of this Agreement without the knowledge and consent of the other.

J. "**Law**" means any law, code, statute, ordinance, regulation, rule or order, which is adopted by a controlling city, county, state or federal legislative, judicial or executive body or agency.

K. "**Notice to Buyer to Perform**" means a document, which shall be in writing and Signed by Seller and shall give Buyer at least 24 hours or until the previously agreed time limit, whichever occurs last, to remove a contingency or perform as applicable.

L. "**Signed**" means either a handwritten or electronic signature on an original document, Copy or any counterpart.

M. **Singular and Plural** terms each include the other, when appropriate.

46. **AGENCY**: RESERVED.

47. **JOINT ESCROW INSTRUCTIONS TO ESCROW HOLDER**:

**A. The following paragraphs, or applicable portions thereof, of this Agreement constitute the joint escrow instructions of Buyer and Seller to Escrow Holder**, which Escrow Holder is to use along with any relating counter offers and addenda, and any additional mutual instructions to close the escrow: 1, 2, 4, 13, 14A, 17, 18, 20, 21, 25E, 34, 40, 44, 45, and 47. If a Copy of the separate compensation agreement(s) for Real Estate Brokers is deposited with escrow Holder by Broker, escrow Holder shall accept such agreement(s) and pay out from Buyer's or Seller's funds, or both, as applicable, the Broker's compensation provided for in such agreement(s) and subject to Paragraph 48 hereof. The terms and conditions of this Agreement not set forth in the specified paragraphs are additional matters for the information of Escrow Holder, but about which Escrow Holder need not be concerned. Buyer and Seller will receive Escrow Holder's general provisions directly from Escrow Holder and will execute such provisions upon Escrow Holder's request. To the extent the general provisions are inconsistent or conflict with this Agreement, the general provisions will control as to the duties and obligations of Escrow Holder only. Buyer and Seller will execute additional instructions, documents and forms provided by Escrow Holder that are reasonably necessary to close the escrow.

B. A Copy of this Agreement signed by Buyer with the Deposit shall be delivered to Escrow Holder. Seller shall sign the Buyer's Agreement within five days of being notified of Buyer's exercise of the option.

Buyer and Seller authorize Escrow Holder to accept and rely on Copies and Signatures as defined in this Agreement as originals, to open escrow and for other purposes of escrow. The validity of this Agreement as between Buyer and Seller is not

C. **RESERVED**.

D. A Copy of any amendment that affects any paragraph of this Agreement for which Escrow Holder is responsible shall be delivered to Escrow Holder within **2** business days after mutual execution of the amendment.

48. **BROKERAGE**: Any broker for either Buyer or Seller shall be compensated exclusively by the party hiring said broker.

49. **RESERVED**.

50. **RESERVED**.

51. **RESERVED**.

52. **RESERVED**.

**The remainder of this page is blank.**

Property Address:________________________________________ Date:________________________

Buyer: Pizza Factory, Inc. Date:________________________________

**DO NOT SIGN - EXHIBIT TO FRANCHISE AGREEMENT**

By:________________________________________ Name printed:________________________________

Address: 49430 Road 426, Suite D, Oakhurst, California, 93644

Telephone: (559) 683-3377 Facsimile: (559) 683-6879

53. **RESERVED**.

## DO NOT SIGN - EXHIBIT TO FRANCHISE AGREEMENT

Seller: (Franchisee)________________________________________Date:________________________________

By:________________________________________Name Printed:________________________________________

Address:____________________________________________________________________________________

Telephone:__________________________________Facsimile:____________________________________________

Seller: (Franchisee)____________________________Date:______________________________________________

By:________________________________________Name Printed:________________________________________

Address:____________________________________________________________________________________

Telephone:__________________________________Facsimile:____________________________________________

Notice Address, if Different_____________________________________________________________________

GUARANTY AND ASSUMPTION OF FRANCHISEE'S OBLIGATIONS
(By Assigning Franchisee Holding Note From Buying Franchisee)

This Guaranty is from the undersigned Franchisee(s) ("Selling Franchisee") and/or the officers, directors, partners or owners of the Selling Franchisee located at ______________________________________________________________ ("Franchise Business") under the Franchise Agreement ("Original Agreement") dated ____________between PIZZA FACTORY, INC. ("Franchisor") and Selling Franchisee. Selling Franchisee is seeking approval from Franchisor for the assignment and sale of the Franchise Business to ______________________________________________________________________ ("Buying Franchisee") in accordance with Article 8 of the Original Agreement. Selling Franchisee is also accepting as part of the consideration for the sale of the Franchise Business a promissory note ("Buyer's Note") secured by a security interest in certain assets either being sold with the Franchise Business to Buying Franchisee and/or other assets owned by Buying Franchisee or its principals ("Security"). As a condition for approval of the sale/assignment of the Franchise Business to Buying Franchisee, Franchisor has required Buying Franchisee to sign a new Franchise Agreement with Franchisor dated___________________("New Agreement").

In consideration of and as an inducement to approve the sale and assignment by Selling Franchisee to Buying Franchisee, each person signing this Guaranty hereby personally and unconditionally, jointly and severally: (i) guarantees to Franchisor and its successors and assigns that the Buying Franchisee will punctually pay when due all amounts required to be paid under the New Agreement and perform each and every undertaking, agreement and covenant set forth in the New Agreement; and (ii) agrees to be personally bound by, and personally liable for, the breach of each and every provision in the New Agreement.

Each of the undersigned waives: (i) acceptance and notice of acceptance by Franchisor of the undersigned's obligations under this Guaranty; (ii) notice of demand for payment of any indebtedness or non-performance of any obligation guaranteed by the undersigned; (iii) protest and notice of default to any party with respect to the indebtedness or non-performance of any obligations guaranteed by the undersigned; (iv) any right the undersigned may have to require that an action be brought against the Buying Franchisee or any other person as a condition of the undersigned's liability; and (v) all other notices and legal or equitable defenses to which the undersigned may be entitled in the undersigned's capacity as guarantor.

Each of the undersigned consents and agrees that: (i) the undersigned's direct and immediate liability under this Guaranty shall be joint and several; (ii) the undersigned will make any payment or render any performance required under the New Agreement upon demand if the Buying Franchisee fails or refuses punctually to do so; (iii) the undersigned's liability will not be contingent or conditioned upon Franchisor's pursuit of any remedies against the Buying Franchisee or any other person, including any other guarantor; (iv) the undersigned's liability will not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Franchisor may from time to time grant to the Buying Franchisee, any guarantor or to any other person, including, for example, the acceptance of any partial payment or performance of the compromise or release of any claims and no such indulgence shall in any way modify or amend this Guaranty; (v) the undersigned's liability will not be diminished, relieved or otherwise affected by any amendment or modification to the New Agreement, or by any change in the name, objects, capital or constitution of the Buying Franchisee, or any successor-in-interest, or by any amalgamation, insolvency or bankruptcy of the Buying Franchisee; (vi) except as expressly stated herein, this Guaranty will continue and be irrevocable during the term of the New Agreement and any renewals thereof and, as to those provisions of the New Agreement that survive its termination or expiration, after its termination or expiration; and (vii) that any action to enforce this Guaranty may be brought in the same jurisdiction as allowed by law or by the New Agreement .

This Guaranty shall remain in full force and effect so long as Buying Franchisee, any of its principals and/or any successor in interest thereof has any obligations to Selling Franchisee, any of its principals and/or any of the undersigned Guarantors arising out of or related to the purchase of the Franchise Business including but not limited to any amounts remaining unpaid pursuant to the terms of the Buyer's Note or any substituted note or similar promise or so long as any of the undersigned or Selling Franchisee, any of its principals and/or its/their successors in interest hold any security interest in the Security and/or in any asset owned by Buying Franchisee or any of the officers, directors, shareholders, members or owners of Buying Franchisee or its/their successors in interest. **Upon the Buying Franchisee or any of its principals no longer being obligated to Selling Franchisee or any of its principals or any of the undersigned Guarantors, and if Buying Franchisee is not in default of the New Agreement, then this Guaranty shall immediately cease to have any force or effect as to any obligations of Guarantor upon Guarantor: (1) mailing a Notice of those circumstances by Certified Mail, Return Receipt Requested to Franchisor; and (2) releasing any security interest it may have in any assets of Buying Franchisee and/or its principals and sending a copy of those releases to Franchisor by Certified Mail, Return Receipt Requested.**

This Guaranty shall be governed by, and construed under, the laws of the State of California, without regard to its conflict of laws principles.

GUARANTORS:

**DO NOT SIGN - EXHIBIT TO FRANCHISE AGREEMENT**

______________________________ ______________________________

______________________________ ______________________________

(Print Name) (Print Name)

**AGREEMENT**
**(Non-Competition, Unfair Competition, Etc.)**

This Agreement is made between ______________________________________________ (Name of Employer/Franchisee hereinafter referred to as "Employer") and __________________ __________________________________(name of employee and/or /principal hereinafter referred to as "Employee") on __________________________________ with reference to the following facts:

A. Employer is a franchisee of Pizza Factory, Inc. and operates the Pizza Factory franchise restaurant located at __________________________________________________________ (hereinafter referred to as "Restaurant").

B. The Franchise Agreement between Pizza Factory, Inc. and Employer requires Employer to enter into an agreement between Employer and its principals and management employees which prohibits the principals or managers from certain activities and employment which agreement may be independently enforced by Pizza Factory, Inc.

C. Employee is [a management employee] [a principal] [both an employee and a principal] of Employer.

In consideration of Pizza Factory, Inc. granting Employer a Pizza Factory franchise and Employer hiring Employee and as a requirement for continued employment and for other good and valuable consideration, the parties hereto agree as follows:

**<u>Non-Competition During Term of Employment or While a Principal</u>**

1. (a) During the time that Employee is employed by Employer and/or while Employee holds any ownership interest in Employer, Employee shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity, engage or participate in any business that is in competition in any manner whatsoever with the business of Employer or Pizza Factory, Inc.

(b) The foregoing obligation of Employee not to compete with Employer and/or Pizza Factory, Inc. shall not prohibit Employee from owning or purchasing any corporate securities that are regularly traded on a recognized stock exchange or over-the-counter market or.

**<u>Unfair Competition After Termination of Employment</u>**

2. Employee acknowledges and agrees that the sale or unauthorized use or disclosure of any of the trade secrets of Employer or Pizza Factory, Inc. as described herein obtained by Employee during Employee's employment with Employer or while holding any ownership interest in Employer, including information concerning marketing strategy or plans, operational procedures, current products and any future or proposed products or services of Pizza Factory, Inc. or Employer, the facts that those strategies, plans, procedures, products or services are planned, under consideration, or in process or production, as well as any descriptions of the features of those

strategies, plans, procedures, products or services constitute unfair competition. Employee promises and agrees not to engage in any unfair competition with Employer either during the term of this Agreement or at any time thereafter.

**Soliciting Customers and Employees or Participating in Competing Businesses**
**After Termination of Employment or Ownership**

3. (a) Employee acknowledges and agrees that the names and addresses of Employer's customers constitute trade secrets of Employer and that the sale or unauthorized use or disclosure of any of Employer's trade secrets obtained by Employee during Employee's employment with Employer constitute unfair competition. Employee further acknowledges that Employer's employees are a valuable asset in the operation of Employer's business. Employee promises and agrees not to engage in any unfair competition with Employer.

(b) For a period of one year immediately following the termination of Employee's employment with Employer or ownership in Employer, Employee shall not directly or indirectly make known to any person, firm, or corporation the names or addresses of any of the customers of Employer or any other information pertaining to them, or call on, solicit, take away, or attempt to call on, solicit, or take away any of the customers of Employer on whom Employee called or with whom Employee became acquainted during Employee's employment with Employer, either for Employee or for any other person, firm, or corporation.

(c) If employee holds any ownership interest in Franchise, then said employee for a period of one year immediately following the termination of employee's ownership in employer, or for one year following the termination of the Franchise Agreement between employer and Pizza Factory, Inc., shall not, directly or indirectly, either as employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity, engage or participate in any business that is in competition in any manner whatsoever with employer's business within five miles of any other Pizza Factory franchise or the business of Pizza Factory, Inc.

**Liquidated Damages**

4. In the event that Employee breaches the foregoing obligation not to compete, Employee shall pay the sum of $10,000.00 to employer and $10,000.00 to Pizza Factory, Inc. per breach or, if applicable, $10,000.00 to each employer and Pizza Factory, Inc. as liquidated damages for the period during which Employee continues to be in breach of the forgoing obligation not to compete. Employer and Employee agree that the amount stated herein as liquidated damages is reasonable under the circumstances existing at the time of the execution of this agreement. Nothing in this provision shall be interpreted to limit the right of Employer or Pizza Factory, Inc. from obtaining injunctive relief or any remedies which may be available by Pizza Factory, Inc. pursuant to the terms of this Agreement or the Franchise Agreement between Employer and Pizza Factory, Inc.

**Independent Enforcement By Pizza Factory, Inc.**

5. The parties hereto agree that the terms of this Agreement are made for, among other things, the benefit of Pizza Factory, Inc. and the terms hereof may be enforced by Pizza Factory,

Inc. either in conjunction with Employer or independently without Employer. Further, Pizza Factory, Inc. shall be permitted to join as a party to any action initiated by either Employer or Employee to enforce or pertaining in any fashion the terms hereof. No act or inaction by Employer shall affect the rights of Pizza Factory, Inc. or limit the ability of Pizza Factory, Inc. to enforce the terms of this Agreement. In that regard, Employee agrees that Employee may not rely upon any such act or inaction by Employer as limiting the ability of Pizza Factory, Inc. to enforce the terms hereof.

**Severability of Provisions**

6. If any provision of this Agreement is held to be illegal or invalid by any tribunal, such provision shall be deemed modified to eliminate the invalid element, and, as so modified, such provision shall be deemed a part of this Agreement as though originally included herein. The remaining provisions of this Agreement shall not be affected by such modification.

**Modification of Agreement**

7. This Agreement may only be modified by a written document signed by the Employee, Employer and Pizza Factory, Inc. which states that the writing is an amendment or modification of this Agreement.

**Nonwaiver**

8. No waiver of any condition or covenant contained in this agreement nor failure to exercise a right or remedy by either of the parties hereto shall be considered to imply or constitute a further waiver by such party of the same or any other condition, covenant, right, or remedy.

**Attorney's Fees**

9. In the event that any party hereto or Pizza Factory, Inc. initiates any legal proceeding to enforce the terms hereof, the prevailing party shall be entitled to an award of their reasonable attorneys' fees and costs.

Dated: ___________________, 20___ EMPLOYEE:

**DO NOT SIGN - EXHIBIT TO FRANCHISE AGREEMENT**

________________________________

Dated: ___________________, 20___ EMPLOYEE:

**DO NOT SIGN - EXHIBIT TO FRANCHISE AGREEMENT**

________________________________

**Exhibit E**
**Area Development Agreement**

11.5 Survival of Covenants. The covenants contained in this Agreement which, by their nature or terms, require performance by the parties after the expiration or termination of this Agreement shall be enforceable notwithstanding said expiration or other termination of this Agreement for any reason whatsoever.

11.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of Company and shall be binding upon and inure to the benefit of Developer and his or their respective, heirs, executors, administrators, and its successors and assigns, subject to the prohibitions and restrictions against Assignment contained herein. This Agreement is for the benefit of the parties only, and except as expressly provided in this Agreement, is not intended to and shall not confer any rights or benefits upon any person who is not a party to this Agreement.

11.7 Joint and Several Liability. If Developer consists of more than one person or Entity, or a combination thereof, the obligations and liabilities of each of such person or Entity to Company are joint and several, and such person(s) or Entities shall be deemed to be general partnership

11.8 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California (without giving effect to any conflict of laws), except that (a) the provisions of Sections 8.2 (and to the extent applicable, Section 8.5) shall be governed in accordance with the laws of the State where the Default of said section occurs, and (b) any state law relating to (1) the offer and sale of franchises, (2) franchise relationships, or (3) business opportunities, will not apply unless the applicable jurisdictional requirements are met independently without reference to this paragraph.

11.9 Entire Agreement; Amendment. This Agreement and the Exhibits incorporated herein contain all of the terms and conditions agreed upon by the parties hereto concerning the subject matter of this Agreement. No other agreements concerning the subject matter of this Agreement, written or oral, shall be deemed to exist or to bind any of the parties to this Agreement and all prior agreements, understandings and representations, are merged herein and superseded hereby. Developer represents that there are no contemporaneous agreements or understandings between the parties relating to the subject matter of this Agreement that are not contained herein. No officer or employee or agent of Company has any authority to make any representation or promise not included in this Agreement or any Franchise Disclosure Document for prospective franchisees required by Applicable Law, and Developer agrees that it has executed this Agreement without reliance upon any such representation or promise. This Agreement cannot be amended, modified or changed except by written instrument signed by all of the parties hereto. Developer acknowledges that no oral or written statements, promises regarding this Agreement or the parties relationship, whether consistent or inconsistent with the terms of this Agreement, have been made to Developer except as set forth in the Franchise Disclosure Document provided to Developer, and that Developer is not relying on any statement or representation other than those in this Agreement and in such Franchise Disclosure Document. Developer agrees that it will not attempt to introduce any evidence of such statements in court or any other proceeding to challenge the terms of this Agreement or the validity of the Agreement as a whole, whether such challenge is based on fraud, tort, breach of contract or otherwise. If there is any conflict between the rights and obligations of the parties set forth in this Agreement and the rights and obligations of the parties described in the

# PIZZA FACTORY, INC.
# AREA DEVELOPMENT AGREEMENT

THIS **AREA DEVELOPMENT AGREEMENT** ("**Agreement**") is made and entered into this ___ day of _________, 20____, (the "**Effective Date**") by and between Pizza Factory, Inc., a California corporation (the "**Company**") and _________________, a(n) _________________ ("**Developer**") with reference to the following facts:

A. Company owns and has developed the right to use and sublicense the "Pizza Factory" name, trademark and service mark, and such other trademarks, trade names, service marks, logotypes, insignias, trade dress and designs directed or authorized by Company for use from time to time (the "**Marks**") trade dress and designs used in connection with the development and operation of pizza and pasta restaurants under the Marks, each operated in accordance with Company's prescribed methods and business practices (each a "**PF Restaurant**").

B. Company desires to expand and develop PF Restaurants in the Development Area, and Developer wishes to develop Traditional PF Restaurants in the Development Area, upon the terms and conditions as set forth in this Agreement.

**NOW, THEREFORE**, the parties agree as follows:

## ARTICLE 1
## GRANT OF DEVELOPMENT RIGHTS

1.1 Certain Fundamental Definitions and Applicable Information. In this Agreement, in addition to those terms defined in Appendix 1 and elsewhere in this Agreement, the following capitalized terms, shall have the meanings set forth below, unless the context otherwise requires:

**"Developer Notice Address"** is: ____________________________
____________________________
____________________________
Fax No.____________________

"**Expiration Date**" means __________________, 20__.

"**Initial Development Fee**" means $________________.

"**Operating Principal**" means ___________________________, or such other individual hereafter designated by Developer, subject to the provisions of this Agreement.

1.2 Grant of Development Rights

1.2.1 Upon the terms and subject to the conditions of this Agreement, Company hereby grants to Developer, and Developer hereby accepts, the right and obligation, during the Term (defined below), to develop Traditional PF Restaurants in the geographic area described in Exhibit A, which is attached hereto and by this reference made a part hereof (the "**Development Area**"). An increase or decrease in the size of the cities, counties geographical areas or political subdivisions, if any, included within these boundaries shall have no effect on the Development Area as it is described in Exhibit A. No right or license is granted to Developer hereunder to develop PF Restaurants at Non-Traditional Venues.

1.2.2 No right or license is granted to Developer hereunder to use any Marks or any other trademarks, trade names, service marks, logotypes, insignias, trade dress or designs owned by Company, such right and license being granted solely pursuant to Franchise Agreements executed pursuant hereto. Without limiting the generality of the foregoing, nothing in this Agreement shall permit Developer to own or operate a PF Restaurant, except pursuant to duly executed and subsisting Franchise Agreement. Developer shall not use the Marks or any other trademarks, trade names, service marks, logotypes, insignias, trade dress or designs in any manner or for any purpose, including in connection with any offering of securities or any request for credit, without the prior express written approval of Company.

1.3 Territorial Rights

1.3.1 During the Term of this Agreement, neither Company nor its Affiliates shall operate or grant a license or franchise to any other person or Entity to operate a Traditional PF Restaurant within the Development Area.

1.3.2 Company expressly reserves all other rights, including the exclusive, unrestricted right, in its discretion, directly and indirectly, itself and through its employees, Affiliates (defined below), representatives, licensees, franchisees, assigns, agents and others:

(a) to own and/or operate and to franchise or license others to own and/or operate (i) PF Restaurants, the physical location of which are located outside of the Development Area, regardless of proximity to the Development Area, (ii) businesses that provide goods and services within and outside of the Development Area, regardless of proximity to the Development Area under names other than "Pizza Factory," (iii) PF Restaurants and other businesses at Non-Traditional Venues within or outside the Development Area, and regardless of their proximity to any PF Restaurant developed or under development or consideration by Developer; and (iv) businesses operating under names other than under the Marks at any location, and of any type whatsoever, regardless of their proximity to the Development Area and whether or not such businesses use any portion of the System, offer similar products or services or compete with PF Restaurants.

(b) to offer, sell, provide, produce, license, distribute and market products and services identified by the Marks and/or other trademarks or service marks to any person or Entity, at or through any location or outlet (other than PF Restaurants, the physical premises of which are located within the Development Area, except for PF Restaurants located at Non-Traditional Venues), regardless of proximity to the Development Area, and through any distribution channel, at wholesale or retail, including by means of the internet or internet web site, mail order catalogs, direct mail advertising, and other distribution methods, including websites, online retailers, and direct sales through affiliates;

(c) to advertise and promote the System through any means, including the internet or internet web site, temporary or permanent displays of products or services, including those offered or sold through PF Restaurants, television, radio, billboards, email, text message, social media, print media, direct mail, demonstrations, seminars, and other forms of advertising and promotion;

(d) to develop or become associated with other concepts (including dual branding and/or franchise systems), whether or not using the System and/or the Marks, and award franchises and/or licenses under other concepts for locations anywhere; and

(e) to engage in any other activities not expressly prohibited by this Agreement.

## ARTICLE 2
## DEVELOPER'S DEVELOPMENT OBLIGATION

2.1 Development Obligation. Within each Development Period specified in Exhibit B, Developer shall construct, equip, open and thereafter continue to operate within the Development Area, not less than the cumulative number of Traditional PF Restaurants required by the Development Obligation for that Development Period. PF Restaurants developed hereunder which are open and operating and which have been assigned to Affiliates of Developer in accordance with Section 7.2.2 with Company's consent, shall count in determining whether Developer has satisfied the Development Obligation for so long as the applicable Affiliate continues to satisfy the conditions set forth in Section 7.2.2.

2.2 Limited Extension of Individual Development Periods. If Developer fails to satisfy the Development Obligation for an individual Development Period solely because Developer failed to open the PF Restaurant prior to the applicable Development Period, but had a Franchise Agreement and lease for the applicable PF Restaurant prior to end of such Development Period, then such Development Period (and no other Development Periods) shall be extended for a period of 3 months (the "**Extension Period**"). If Developer fails to use the entire Extension Period, the balance of the same shall be forfeited and shall not alter or affect any other Development Period.

2.3 Force Majeure

2.3.1 Subject to Developer's continuing compliance with Section 2.3.2, should Developer be unable to meet the Development Obligation for any Development Period solely as the result of Force Majeure or any legal disability of Company to deliver a Franchise Disclosure Document pursuant to Section 6.2, which results in the inability of Developer to construct or operate the PF Restaurants in all or substantially all of the Development Area pursuant to the terms of this Agreement, the particular Development Period during which the event of Force Majeure (or Company's legal disability to deliver a Franchise Disclosure Document) occurs shall be extended by an amount of time equal to the time period during which the Force Majeure (or Company's legal disability to deliver a Franchise Disclosure Document) shall have existed during that Development Period. Development Periods during which no such Force Majeure (or legal disability) existed shall not be extended. Other than as a result of Force Majeure or Company's legal disability to deliver a Franchise Disclosure Document, any delay in Company's issuance of acceptance of any site under Article 6, including, as a result of Developer's failure to satisfy the conditions set forth in Section 6.3, shall not extend any Development Period.

2.3.2 In the event of the occurrence of an event which Developer claims to constitute Force Majeure, Developer shall provide written notice to Company within 5 days following commencement of the alleged Force Majeure which notice shall include the words "force majeure" and explicitly describe the specific nature and extent of the Force Majeure, and how it has impacted Developer's performance hereunder. Developer shall continue to provide Company with updates and all information as may be requested by Company, including Developer's progress and diligence in responding to and overcoming the Force Majeure and the cessation of the Force Majeure. If Developer shall fail to notify Company of any alleged Force Majeure within said 5 day period or shall fail to provide updates or notify Company of the cessation of the Force Majeure, Developer shall be deemed to have waived the right to claim such Force Majeure.

2.4 Developer May Exceed The Development Obligation. Developer may construct, equip, open and operate more than the total number of Traditional PF Restaurants comprising the Development Obligation with Company's prior written consent, not to be unreasonably withheld, which consent may be conditioned, including conditioned on the payment of additional fees and/or the execution of an amendment to this Agreement.

## ARTICLE 3
## DEVELOPMENT AREA

3.1 Company's Right to Develop. Notwithstanding Section 2.1 above, if during the Term of this Agreement, Developer is unable or unwilling, or fails for any reason (except due to Force Majeure as provided in Section 2.3), to satisfy the Development Obligation, Developer shall be deemed to be in material default of this Agreement and Company may terminate this Agreement upon notice to Developer. Upon such termination, Company may, but has no obligation to, open and operate, or license others to (or grant others development rights to) open and operate, PF Restaurants at any site(s) within the Development Area, subject to the terms of the individual Franchise Agreement(s) for each then existing Traditional PF Restaurant located in the Development Area.

3.2 Protected Territory for Each Individual PF Restaurant. Subject to certain conditions and reserved rights set forth in the Franchise Agreements and the rights reserved to Company (and its designees), each such agreement executed pursuant hereto shall provide that Company may not open or operate, or franchise or license the operation of, any Traditional PF Restaurant within a three-mile straight-line radius from the location of the applicable Traditional PF Restaurant.

## ARTICLE 4
## TERM OF AREA DEVELOPMENT AGREEMENT

4.1 Term. The term of this Agreement shall commence on the Effective Date and, unless otherwise negotiated, terminated or extended as provided herein, shall continue until the earlier of (i) the Expiration Date, or (ii) the date of execution of the Franchise Agreement granting Developer the right to open the last PF Restaurant necessary for Developer to fully satisfy the Development Obligation (the "**Term**"). At the end of the Term, this Agreement shall be deemed expired.

4.2 Limited Additional Development Right. If Developer shall determine that it desires to engage in further development of Traditional PF Restaurants in the Development Area in excess of the Development Obligation, Developer shall at the earlier of (i) 180 days prior to the scheduled expiration of the Term or (ii) the date on which acceptance of the proposed site for the last Traditional PF Restaurant required to meet the Development Obligation is issued, notify Company in writing ("**Additional Development Notice**") of Developer's desire to develop additional Traditional PF Restaurants in the Development Area and a plan for such development over a new term, setting forth the number of proposed Traditional PF Restaurants and the deadlines for the development of each of them within such proposed term. This right of additional development by Developer shall be exercised only in accordance with Section 4.3 and is subject to the conditions set forth in Section 4.4. This Agreement is not otherwise renewable.

4.3 Exercise of Right of Additional Development

4.3.1 If Company determines the additional development obligation proposed by the Additional Development Notice is unacceptable in any respect(s), Company and Developer shall (subject to Section 4.4) negotiate during the following 60 days in an effort to reach a mutually agreeable additional development obligation. Each party may negotiate to protect its own interests as it deems appropriate in its discretion.

4.3.2 If the additional development obligation proposed by the Additional Development Notice is acceptable to Company, or if Company and Developer reach agreement on an alternative additional development obligation (the "**Additional Development Obligation**") within said 60 day period, then Company shall deliver to Developer a copy of Company's Then-current Franchise Disclosure Document, if required by Applicable Law, and two copies of the Then-current area development agreement, which may vary substantially from this Agreement, setting forth the agreed upon Additional Development Obligation. Within 30 days after Company's delivery of the said area development agreement, but no sooner than immediately after the expiration of any applicable waiting period(s) prescribed by Applicable Law, Developer shall execute two copies of the area development agreement and return them to Company together with the applicable development fee, if any, for the Traditional PF Restaurants required by the Additional Development Obligation. If Developer has so executed and returned the copies and has satisfied the conditions set forth in Section 4.4, Company will execute the copies and return one fully executed copy to Developer.

4.4 Conditions to Exercise of Right of Additional Development. Developer's right to additional development described in Section 4.2 shall be subject to Developer's fulfillment of the following conditions precedent:

4.4.1 Developer (and each of its Affiliates which have developed or operate PF Restaurants in the Development Area) shall have fully performed all of its obligations under this Agreement and all other agreements between Company and Developer (or the applicable Affiliate).

4.4.2 Developer shall have demonstrated to Company's satisfaction Developer's financial capacity to perform the Additional Development Obligations set forth in the area development agreement. In determining if Developer is financially capable, Company will apply the same criteria to Developer as it applies to prospective area developer Developers at that time.

4.4.3 At the expiration of each Development Period and at the expiration of the Term, Developer shall have opened and shall thereafter have continued to operate, in the Development Area, not less than the aggregate number of Traditional PF Restaurants then required by the Development Obligation.

4.4.4 Company and Developer shall have executed a new area development agreement pursuant to Section 4.3.

4.4.5 Developer and all Affiliates of Developer who then have a currently effective franchise agreement or area development with Company shall have executed and delivered to Company a general release, or a form prescribed by Company, of any and all known and unknown claims against Company or its Affiliates, and their respective officers, directors, agents, shareholders and employees.

4.5 Effect of Expiration. Unless an Additional Development Obligation shall have been agreed upon, and a new area development agreement shall have been executed by the parties as provided in this Agreement, following the expiration of the Term, or the sooner termination of this Agreement, (a) Developer shall have no further right to construct, equip, own, open or operate additional PF Restaurants which are not, at the time of such termination or expiration, the subject of a then existing Franchise Agreement between Developer (or an Affiliate of Developer) and Company which is then in full force and effect, and (b) Company or its Affiliates may thereafter itself construct, equip, open, own or operate, franchise, and license others to (or grant development rights to) construct, equip, open, own or operate PF Restaurants at any location(s) (within or outside of the Development Area), without any restriction, subject only to any territorial rights granted for any then-existing PF Restaurants pursuant to a validly subsisting Franchise Agreement executed for such PF Restaurant.

## ARTICLE 5
## PAYMENTS BY DEVELOPER

5.1 Initial Development Fee. Concurrently with the execution of this Agreement, Developer shall pay to Company, by certified check or wire transfer of immediately available funds, the amount of the Initial Development Fee. The Initial Development Fee represents one-half of the total Initial Franchise Fees payable for all of the PF Restaurants to be developed under the this Agreement (other than your first PF Restaurant), plus the sum of $20,000 representing the Initial Franchise Fee payable pursuant to the first Franchise Agreement required to be executed pursuant hereto. Developer acknowledges that the Initial Development Fee is fully earned upon execution of this Agreement, nonrefundable and not contingent on the opening or operation of any PF Restaurant.

5.2 Initial Franchise Fee. Notwithstanding the terms of the Franchise Agreement executed for each Traditional PF Restaurant developed pursuant to this Agreement, Developer shall pay to Company, in cash or by certified check, an initial franchise fee ("**Initial Franchise Fee**") equal to the amounts set forth below, for each Traditional PF Restaurant, which Initial

Franchise Fee shall be payable upon execution by Developer of each Franchise Agreement entered into pursuant to this Agreement, provided, however, that Company shall credit such development fee against the Initial Franchise Fees payable under the second and each subsequent Franchise Agreement (at the rate of $7,500 per Franchise Agreement for the second through fourth Traditional PF Restaurants and the rate of $5,000 per Franchise Agreement for the fifth and subsequent Traditional PF Restaurants).

| Restaurants | Initial Franchise Fee |
|---|---|
| 1st Traditional PF Restaurant | $20,000 |
| 2nd through 4th Traditional PF Restaurant | $15,000 |
| 5th and subsequent Traditional PF Restaurant | $10,000 |

5.3 Royalty Fee; Advertising Fee. The Franchise Agreement executed for each PF Restaurant developed pursuant hereto, shall provide that: (1) the monthly royalty shall be equal to 5% of net sales (as defined in the Franchise Agreement); and (2) the monthly advertising fee shall be 3% of net sales.

## ARTICLE 6
## EXECUTION OF INDIVIDUAL FRANCHISE AGREEMENTS

6.1 Site Review

6.1.1 Promptly following the Effective Date, Developer shall promptly locate one or more proposed sites at sites other than Non-Traditional Venues that meet the Standards. When Developer has located a proposed site for construction of a Traditional PF Restaurant, Developer shall submit to Company in a form prescribed by Company such demographic and other information regarding the proposed site(s) and neighboring areas as Company shall require, in the form prescribed by Company ("**Site Review Request**"). Company may seek such additional information as it deems necessary within 15 days of submission of Developer's Site Review Request, and Developer shall respond promptly to such request for additional information. If Company shall not deliver written notice to Developer that Company accepts or rejects the proposed site, within 30 days of receipt of Developer's Site Review Request, or within 15 days after receipt of such additional requested information, whichever is later, the site shall be deemed rejected. Company may accept or reject a proposed site in its sole discretion. If the Company accepts the proposed site it shall notify Developer of its acceptance of the site. Company may impose a fee of $2,500 per each Site Review Request if Developer has submitted more than one Site Review Request per Traditional PF Restaurant to be developed.

6.1.2 Although Company may voluntarily (without obligation) assist Developer in locating an acceptable site for a Traditional PF Restaurant, neither Company's said assistance, if any, nor its acceptance of any proposed site, whether initially proposed by Developer or by Company, shall be construed to insure or guarantee the profitable or successful operation of the PF Restaurant at that site by Developer, and Company hereby expressly disclaims any responsibility therefor. Developer acknowledges its sole responsibility for finding each site for the Traditional PF Restaurants it develops pursuant to this Agreement.

6.2 Delivery of Franchise Disclosure Document, Execution of Lease and Franchise Agreement

6.2.1 Promptly following Developer's receipt of Company's acceptance, Developer shall proceed to negotiate a lease or purchase agreement for the site and shall submit to Company a copy of the proposed lease or purchase agreement, as applicable. Following Company's receipt of the proposed lease or purchase agreement, as applicable, which meets Company's requirements, Company shall notify Developer of its acceptance or rejection of the proposed lease or purchase agreement, as applicable.

6.2.2 If the accepted location is leased or subleased, (i) the lease shall name Developer as the sole lessee thereunder, and may not be subleased to Developer by any Affiliate of Developer or any of its Owners without Company's express prior written consent; (ii) Developer shall neither create nor purport to create any obligations on behalf of Company, nor grant or purport to grant to the lessor thereunder any rights against Company, nor agree to any other term, condition, or covenant which is inconsistent with any provision of this Agreement; (iii) the lease shall be for a term which is not less than the term of the Franchise Agreement, unless Company shall approve, in writing, a shorter term of the lease; (iv) the lease shall not contain a non-competition covenant which purports to restrict the Company, or any Developer or licensee of the Company (or its Affiliates), from operating a PF Restaurant or any other retail establishment, unless such covenant is approved by the Company in writing prior to execution of the Lease; (v) Developer shall duly and timely perform all of the terms, conditions, covenants and obligations imposed upon Developer under the lease; and (vi) a fully executed copy of said lease, in the form and on the terms previously accepted by Company, shall be delivered to Company promptly following the execution thereof. The lease shall, unless Company otherwise consents in writing, include an addendum in the form prescribed by Company.

6.2.3 Company's review and acceptance or rejection of the lease or purchase agreement is solely for Company's benefit and is solely an indication that the lease meets Company's minimum Standards and specification at the time of acceptance of the lease (which may be different that the requirements of this Agreement). Company's review and acceptance of the lease shall not be construed to be an endorsement of such lease, confirmation that such lease complies with Applicable Law, or confirmation that the terms of such lease are favorable to Developer, and Company hereby expressly disclaims any responsibility therefore.

6.2.4 Subject to Section 6.3, after Company's acceptance of each proposed site, Company shall deliver to Developer a copy of Company's Then-current Franchise Disclosure Document as may be required by Applicable Law (the "**Franchise Disclosure Document**") and two copies of the Then-current Franchise Agreement. Immediately upon receipt of the Franchise Disclosure Document, Developer shall return to Company a signed copy of the Acknowledgment of Receipt of the Franchise Disclosure Document. Developer acknowledges that the new

Franchise Agreement may vary substantially from the current Franchise Agreement. If Company is not legally able to deliver a Franchise Disclosure Document to Developer by reason of any lapse or expiration of its franchise registration, or because Company is in the process of amending any such registration, or for any reason beyond Company's reasonable control, Company may delay acceptance of the site for Developer's proposed PF Restaurant, or delivery of a Franchise Agreement, until such time as Company is legally able to deliver a Franchise Disclosure Document.

6.2.5 Within 30 days after Developer's receipt of the Franchise Disclosure Document and the Then-current Franchise Agreement, but no sooner than immediately after any applicable waiting periods prescribed by Applicable Law have passed, Developer shall execute two copies of the Franchise Agreement described in the Franchise Disclosure Document and return them to Company together with the applicable Initial Franchise Fee. If Developer has so executed and returned the copies and Initial Franchise Fee and has satisfied the conditions set forth in Section 6.3, Company shall execute the copies and return one fully executed copy of such Franchise Agreement to Developer.

6.2.6 Developer shall not execute any lease or purchase agreement for any PF Restaurant, until Company has accepted the proposed site and Company has delivered to Developer a fully executed Franchise Agreement counter-signed by Company pursuant to Sections 6.2.5. After Company's acceptance of the site and lease (or purchase agreement, if applicable), and its delivery to Developer of the fully executed Franchise Agreement, Developer shall then procure the site pursuant to the purchase agreement or lease which has been reviewed and accepted by Company, and shall forward to Company, within ten (10) days after its execution, one copy of the executed lease or, if purchased, the deed evidencing Developer's right to occupy the site. Developer shall then commence construction and operation of the PF Restaurant pursuant to the terms of the applicable Franchise Agreement.

6.3 Condition Precedent to Company's Obligations. It shall be a condition precedent to Company's obligations pursuant to Sections 6.1 and 6.2, and to Developer's right to develop each and every PF Restaurant, that Company is then offering and selling franchise in the state where the Development Area is located, and Developer shall have satisfied all of the following conditions precedent prior to Company's acceptance of the proposed PF Restaurant and the site and lease or purchase agreement therefor, and the Company's execution of the Franchise Agreement therefor:

6.3.1 Developer and its Affiliates that have developed or operate PF Restaurants in the Development Area, shall have fully performed all of its obligations under this Agreement and all Franchise Agreements and other written agreements between Company and Developer, and must not at any time following Developer's submission of its Site Review Request, and until Company grants its acceptance of the proposed site, be in default of any of its contractual or other legal obligations to Company or any of its Affiliates, or any approved vendor or supplier, or to any federal, state, county or municipal agency.

6.3.2 Developer shall have demonstrated to Company, in Company's discretion, Developer's financial and other capacity to perform the obligations set forth in the proposed new Franchise Agreement, and Developer's submission of a comprehensive management plan acceptable to, and accepted by Company, which shall include among other reasonable requirements as may be established by Company, an organization chart and supervisory requirements for the proposed PF Restaurant. In determining if Developer is financially or otherwise capable, Company shall apply the same criteria to Developer as it applies to prospective area developers at that time.

6.3.3 Developer and its Affiliates shall continue to operate, in the Development Area, not less than the cumulative number of PF Restaurants required by the Development Obligation set forth in Exhibit B to be in operation as of the end of the immediately preceding Development Period.

6.3.4 Developer, and each of its Affiliates who then has a currently effective Franchise Agreement or area development agreement with Company, must sign a general release of any claims they may have against Company and its Affiliates, on a form prescribed by Company.

6.3.5 Developer and each of its Affiliates shall be in full compliance with Applicable Law.

## ARTICLE 7
## ASSIGNMENT AND SUBFRANCHISING

7.1 Assignment by Company. This Agreement is fully transferable by Company, in whole or in part, without the consent of Developer and shall inure to the benefit of any transferee or their legal successor to Company's interests in this Agreement; provided, however, that such transferee and successor shall expressly agree to assume Company's obligations under this Agreement. Without limiting the foregoing, Company may (i) assign or delegate any or all of its rights and obligations under this Agreement; (ii) sell its assets, the Marks, or the System outright to a third party; (iii) engage in a public offering of its securities; (iv) engage in a private placement of some or all of its securities; (v) merge, acquire other corporations, or be acquired by another individual or Entity; or (vi) undertake a refinancing, recapitalization, leveraged buy-out or other economic or financial restructuring. Company shall be permitted to perform such actions without liability or obligation to Developer who expressly and specifically waives any claims, demands or damages arising from or related to any or all of the above actions (or variations thereof). In connection with any of the foregoing, at Company's request, Developer shall deliver to Company a statement in writing certifying (a) that this Agreement is unmodified and in full force and effect (or if there have been modifications that the Agreement as modified is in full force and effect and identifying the modifications); (b) that Developer is not in default under any provision of this Agreement, or if in default, describing the nature thereof in detail; and (c) as to such other matters as Company may reasonably request; and Developer agrees that any such statements may be relied upon by Company and any prospective purchaser, assignee or lender of Company.

7.2 No Subfranchising by Developer.

7.2.1 Developer shall not offer, sell, or negotiate the sale of franchises to any third party, either in Developer's own name or in the name and/or on behalf of Company, or otherwise subfranchise, subcontract, sublicense, share, divide or partition this Agreement or any Franchise

Agreement executed pursuant hereto, and nothing in this Agreement will be construed as granting Developer the right to do so. Developer shall not execute any Franchise Agreement with Company, or construct or equip any PF Restaurant with a view to offering or assigning such Franchise Agreement or PF Restaurant to any third party.

7.2.2 Notwithstanding Section 7.2.1, Developer may, with Company's prior written consent, execute and contemporaneously assign a Franchise Agreement executed pursuant hereto to a separate Entity controlled by Developer (each a "**Subsidiary**"); provided and on condition that:

(a) Upon Company's request, Developer has delivered to Company a true, correct and complete copy of the Subsidiary's articles of incorporation or articles of organization, bylaws, operating agreement, partnership agreement, and other organizational documents, and Company has accepted the same;

(b) The Subsidiary's articles of incorporation or articles of organization, bylaws, operating agreement, and partnership agreement, as applicable, shall provide that its activities are confined exclusively to operating PF Restaurant;

(c) Developer, directly owns and controls not less than 100% of the Equity and voting rights of the Subsidiary;

(d) the Subsidiary is in good standing in its jurisdiction of organization and each other jurisdiction where the conduct of its business or the operation of its properties requires it to be so qualified;

(e) the person designated by Developer as the Operating Principal has exclusive day-to-day operational control over the Subsidiary;

(f) the Subsidiary conducts no business other than the operation of the PF Restaurant;

(g) the Subsidiary assumes all of the obligations under the Franchise Agreement as franchisee pursuant to written agreement, the form and substance of which shall be acceptable to Company;

(h) each person or Entity comprising Developer, and all present and future Owners of 10% or more (directly or indirectly), in the aggregate, of the Equity or voting rights of any franchisee under any and all Franchise Agreements executed pursuant to this Agreement shall execute a written guaranty in a form prescribed by Company, personally, irrevocably and unconditionally guaranteeing, jointly and severally, with all other guarantors, the full payment and performance of all of the obligations to Company and to Company's Affiliates under this Agreement and each Franchise Agreement executed pursuant hereto (for purposes of determining whether said 10% threshold is satisfied, holdings of spouses, family members who live in the same household, and Affiliates shall be aggregated);

(i) none of the Owners of the Equity of the franchisee under the applicable Franchise Agreement is engaged in Competitive Activities;

(j) at Company's request, Developer shall, and shall cause each of its Affiliates to execute and deliver to Company a general release, on a form prescribed by Company of any and all known and unknown claims against Company and its Affiliates and their officers, directors, agents, shareholders and employees; and

(k) Developer shall reimburse Company for all direct and indirect costs and expense it may incur in connection with the transfer and assignment, including attorney's fees.

7.2.3 In the event that Developer exercises its rights under Section 7.2.2 then, Developer and such Subsidiary shall, in addition to any other covenants contained in the applicable Franchise Agreement, affirmatively covenant to continue to satisfy each of the conditions set forth in Section 7.2.2 throughout the term of such Franchise Agreement.

7.3 Assignment by Developer

7.3.1 This Agreement has been entered into by Company in reliance upon and in consideration of the singular personal skill, qualifications and trust and confidence reposed in Developer. Neither Developer nor any Owner shall cause or permit any Assignment unless Developer shall have obtained Company's prior written consent, which consent may be withheld for any reason whatsoever in Company's judgment or for no reason at all, and shall comply with Company's right of first refusal pursuant to Section 7.3.4. Except as provided in Section 7.2.2, Developer acknowledges and agrees that it will not be permitted to make an Assignment of this Agreement or sell, gift, convey, assign or transfer the assets used in any of the PF Restaurants developed hereunder or any Franchise Agreement executed pursuant to this Agreement except in conjunction with a concurrent Assignment to the same approved assignee of all of the assets used in all of said PF Restaurants, and all of the Franchise Agreements executed pursuant to this Agreement or at Company's election the execution by the assignee of new Franchise Agreements on Company's Then-current form for each of the PF Restaurants then developed or under development by Developer, and otherwise in accordance with the terms and conditions of Developer's Franchise Agreement(s). If Developer is an Entity, Developer shall promptly provide Company with written notice (stating such information as Company may from time to time require) of each and every transfer, assignment, encumbrance, gift and other conveyance, voluntarily or involuntarily, in whole or in part, by operation of Applicable Law or otherwise by any Owner of any direct or indirect Equity or voting rights in Developer, notwithstanding that the same may not constitute an "Assignment" as defined by this Agreement.

7.3.2 Developer shall not, directly or indirectly, pledge, encumber, hypothecate or otherwise grant any third party a security interest in this Agreement in any manner whatsoever without the prior express written consent of Company. To the extent that the foregoing prohibition may be ineffective under Applicable Law, Developer shall provide not less than 10 days prior written notice (which notice shall contain the name and address of the secured party and the terms of such pledge, encumbrance, hypothecation or security interest) of any pledge, encumbrance, hypothecation or security interest in this Agreement.

7.3.3 Securities, partnership or other ownership interests in Developer may not be offered to the public under the Securities Act of 1933, as amended, nor may they be registered under the Securities Exchange Act of 1934, as amended, or any comparable federal, state or foreign law, rule or regulation. Such interests may be offered by private offering or otherwise only with the prior written consent of Company, which consent shall not be unreasonably withheld. All materials required for any such private offering by federal or state law shall be submitted to Company for a limited review as discussed below prior to being filed with any governmental agency; and any materials to be used in any exempt offering shall be submitted to Company for such review prior to their use. No such offering by Developer shall imply that Company is participating in an underwriting, issuance or offering of securities of Developer or Company, and Company's review of any offering materials shall be limited solely to the subject of the relationship between Franchise and Company and its Affiliates. Company may, at its option, require Developer's offering materials to contain a written statement prescribed by Company concerning the limitations described in the preceding sentence. Developer, its Owners and the other participants in the offering must fully defend and indemnify Company, and its Affiliates, their respective partners and the officers, directors, manager(s) (if a limited liability company), shareholders, members, partners, agents, representatives, independent contractors, servants and employees of each of them, from and against any and all losses, costs and liability in connection with the offering and shall execute any additional documentation required by Company to further evidence this indemnity. For each proposed offering, Developer shall pay to Company a non-refundable fee of $5,000, which shall be in addition to any transfer fee under any Franchise Agreement or such greater amount as is necessary to reimburse Company for its reasonable costs and expenses associated with reviewing the proposed offering, including without limitation, legal and accounting fees. Developer shall give Company written notice at least thirty (30) days prior to the date of commencement of any offering or other transaction covered by this Section.

7.3.4 Developer's written request for consent to any Assignment must be accompanied by an offer to Company of a right of first refusal to purchase the interest which is proposed to be transferred, on the same terms and conditions offered by the third party; provided that Company may substitute cash for any non-cash consideration proposed to be given by such third party (in an amount determined by Company reasonably and in good faith as the approximate equivalent value of said non-cash consideration); and provided further that Developer shall make representations and warranties to Company customary for transactions of the type proposed (the "**ROFR**"). If Company elects to exercise the ROFR, Company or its nominee, as applicable, shall send written notice of such election to Developer within 60 days of receipt of Developer's request. If Company accepts such offer, the closing of the transaction shall occur within 60 days following the date of Company's acceptance. Any material change in the terms of an offer prior to closing or the failure to close the transaction within 60 days following the written notice provided by Developer (the "**ROFR Period**") shall cause it to be deemed a new offer, subject to the same right of first refusal by Company, or its third-party designee, as in the case of the initial offer. Company's failure to exercise such right of first refusal shall not constitute consent to the transfer or a waiver of any other provision of this Agreement, including any of the requirements of this Article with respect to the proposed transfer.

## ARTICLE 8
## CONFIDENTIALITY; NON-COMPETITION

8.1 Confidentiality

8.1.1 Restricted Persons may have access to proprietary and Confidential Information, including the Standards, procedures, concepts and methods and techniques of developing and operating a PF Restaurant. Company may disclose certain of its Confidential Information to Restricted Persons in the operations manuals(s), bulletins, supplements, confidential correspondence, or other communications, and through Company's training program and other guidance and management assistance. No Restricted Person shall acquire any interest in the Confidential Information other than the right to use it in developing a PF Restaurant. A Restricted Person’s duplication or use of the Confidential Information in any other endeavor or business shall constitute an unfair method of competition. Each Restricted Person shall: (i) not use the Confidential Information in any business or other endeavor other than in connection with the development of PF Restaurants; (ii) refrain from disclosing the Confidential Information and maintain the absolute confidentiality of the Confidential Information during and after the Term; and (iii) make no unauthorized copy of any portion of the Confidential Information, including the operations manual(s), bulletins, supplements, confidential correspondence, or other confidential communications, whether written or oral. Developer shall implement reasonable procedures prevent unauthorized use and disclosure of the Confidential Information. If Developer has any reason to believe that any employee or Restricted Person has improperly used or disclosed the Confidential Information, Developer shall promptly notify Company and shall cooperate with Company to protect Company against infringement or other unlawful use, including, the prosecution of any lawsuits if, in the judgment of Company, such action is necessary or advisable.

8.1.2 Developer shall obtain covenants similar to those in Sections 8.1 and 8.2 from Restricted Persons, and such other personnel, as Company may specify. Company may require that Company be an express third party beneficiary with the right to enforce such agreements. Promptly upon Company's request, Developer shall deliver executed copies of such agreements to Company.

8.2 Non-Competition. Developer acknowledges that the System is distinctive and has been developed by Company and/or its Affiliates at great effort, time, and expense, and that Developer has regular and continuing access to valuable and confidential information, training, and Confidential Information regarding the System. Developer therefore agrees as follows:

8.2.1 During the Term, no Restricted Person shall in any capacity, either directly or indirectly, through one or more Affiliates or otherwise, engage in any Competitive Activities at any location, whether within or outside the Development Area.

8.2.2 To the extent permitted by Applicable Law, upon (i) the expiration or termination of this Agreement, (ii) the occurrence of any Assignment, or (iii) the cessation of any Restricted Person’s relationship with Developer, each person who was a Restricted Person before such event shall not for a period of 24 months thereafter, either directly or indirectly, own, operate, advise, be employed by, or have any financial interest in any business engaged in Competitive Activities within the Development Area or within 5 miles of any then-existing PF Restaurant.

8.3 Certain Developments. All ideas, concepts, techniques or materials relating to a PF Restaurant ("**Developments**"), whether or not protectable intellectual property and whether created by or for Developer or its Owners, employees or contractors, must be promptly disclosed to Company and will be deemed to be Company's sole and exclusive property. Developer assigns ownership of that item, and all related rights to that item, to Company. The Company will sign and cause its Owners, employees and contractors to sign whatever assignment or other documents Company requests to evidence Company's ownership and to help Company obtain intellectual property rights in the item. Developer may not use any Developments in operating a PF Restaurant or otherwise without Company's prior written approval. Developer waives all moral rights in the Developments and will cause all of its Owners, employees and contractors to waive all moral rights in the Developments.

8.4 Press Releases. Unless required by Applicable Law, no public communication, press release or announcement regarding this Agreement, the transactions contemplated hereby shall be made by Developer without the prior written consent of Company.

8.5 Enforcement. The parties hereby expressly agree that if the scope or enforceability of Article 8 (or any section thereof) is disputed at any time by Developer, a court or arbitrator, as the case may be, may modify either or both of such provisions to the extent that it deems necessary to make such provision(s) enforceable under Applicable Law. In addition, Company reserves the right to reduce the scope of either, or both, of said provisions without Developer's consent, at any time or times, effective immediately upon notice to Developer. In view of the importance of the Marks and the Confidential Information and the incalculable and irreparable harm that would result to the parties in the event of a default of the covenants and agreements set forth in this Agreement, the parties agree that each party shall have the right to obtain specific performance, temporary restraining orders and temporary or preliminary injunctive relief from a proper court in the place where Developer has its principal office court of competent jurisdiction to enforce the covenants and agreements in this Article 8, in addition to any other relief to which such party may be entitled at law or in equity. Each party submits to the jurisdiction of the court in the place where the Developer has its principal office for these purposes. Developer agrees that Company may have temporary or preliminary injunctive relief without bond, but upon due notice, and Developer's sole remedy in the event of the entry of such injunctive relief will be the dissolution of the injunctive relief, if warranted, upon hearing duly had (all claims for damages by reason of the wrongful issuance of any injunction being expressly waived).

## ARTICLE 9
## TERMINATION

9.1 Termination By Company Pursuant to a Default of this Agreement

9.1.1 Subject to Applicable Law to the contrary, this Agreement may be terminated by Company in the event of any Default by Developer of this Agreement, unless such Default is cured by Developer within 5 days following written notice of the Default (in the case of a failure to pay money), or 30 days following written notice of the Default (in the case of any other Default); provided that in the case of a Default by Developer (or its Affiliate) under any Franchise Agreement or other written agreement, the notice and cure provisions of the Franchise Agreement or other agreement shall control, and provided, further, however, that any Default described in Sections 9.1.2(a), (b) or (e) below shall be deemed incurable.

9.1.2 The term "Default", as used herein, includes the following:

(a) Any Assignment or attempted Assignment in violation of the terms of Section 7.2 or 7.3, or without the written consents required pursuant to this Agreement; provided, however, (i) upon prompt written request to Company following the death or legal incapacity of a Developer who is an individual, Company shall allow a period of up to 60 days after such death or legal incapacity for his or her heirs, personal representatives, or conservators (the "**Heirs**") to seek and obtain Company's consent to the Assignment his or her rights and interests in this Agreement to the Heirs or to another person acceptable to Company; or (ii) upon prompt written request to Company following the death or legal incapacity of an Owner of a Developer which is an Entity, directly or indirectly, owning more than 20% or more of the Equity or voting power of Developer, Company shall allow a period of up to 60 days after such death or legal incapacity for his or her Heir(s) to seek and obtain Company's consent to the Assignment of such Equity and voting power to the Heir(s) or to another person or persons acceptable to Company. If, within said 60 day period, said Heir(s) fail to receive Company's consent as aforesaid or to effect such consented to Assignment, then this Agreement shall immediately terminate at Company's election.

(b) Subject to Section 2.3, failure of Developer to satisfy the Development Obligation within the Development Periods set forth herein.

(c) Failure of Developer (or any Affiliate of Developer) to pay any Initial Franchise Fee or Royalty Fee in a timely manner as required by this Agreement or any Franchise Agreement signed by Developer.

(d) Developer's opening of any PF Restaurant in the Development Area except in strict accordance with the procedures set forth in Sections 6.1 through 6.3.

(e) Failure of Developer to fully comply with the requirements of Article 8.

(f) Any Default of any other agreement between Developer (or any Affiliate of Developer) and Company (or any Affiliate of Company), including any Franchise Agreement executed pursuant hereto.

## ARTICLE 10
## ADDITIONAL COVENANTS OF DEVELOPER

10.1 Entity Developer Information. If Developer is an Entity, Developer represents and warrants that the information set forth in Exhibit C which is annexed hereto and by this reference made a part hereof, is accurate and complete in all material respects. Developer shall notify Company in writing within 10 days of any change in the information set forth in Exhibit C, and shall submit to Company a revised Exhibit C, which shall be certified by Developer as true, correct and complete and upon acceptance thereof by Company shall be annexed to this Agreement as

Exhibit C. Developer promptly shall provide such additional information as Company may from time to time request concerning all persons who may have any direct or indirect financial interest in Developer, including providing copies of all amendments to Developer's "**Entity Documents**" as defined in Exhibit C. Developer shall conduct no business other than the business contemplated hereunder and under any currently effective Franchise Agreement between Company and Developer. The Entity Documents of Developer shall recite that the issuance and transfer of any interest therein is subject to the restrictions set forth in the Agreement and any Franchise Agreement executed pursuant thereto.

10.2 Operating Principal; Training Director.

10.2.1 Developer shall at all times throughout the Term and the term of each Franchise Agreement executed pursuant hereto after such date retain and employ an Operating Principal. The Operating Principal shall (i) be vested with the authority and responsibility for the day-to-day operations of all PF Restaurants owned or operated by Developer within the Development Area and (ii) be principally responsible for communicating and coordinating with Company regarding business, operational and other ongoing matters concerning this Agreement and the PF Restaurants developed pursuant hereto. The Operating Principal shall, during the entire period he/she serves as such, meet the following qualifications: (a) shall devote full working-time and best efforts solely to operation of all PF Restaurants owned or operated by Developer in the Development Area and to no other business activities; and (b) shall have successfully passed to Company's satisfaction, Company's initial training program and such additional and supplemental training programs as Company may require from time to time. The Operating Principal shall have the full authority to act on behalf of Developer in regard to performing, administering or amending this Agreement and all Franchise Agreements executed pursuant hereto. Company may, but is not required to, deal exclusively with the Operating Principal in such regards unless and until Company's actual receipt of written notice from Developer of the appointment of a successor Operating Principal.

10.2.2 Commencing on the date which Developer opens its second PF Restaurant within the Development Area, and at all times throughout the Term and the term of each Franchise Agreement executed pursuant hereto after such date, Developer shall employ and retain a Training Director (as defined below), and a general manager, which may be the Operating Principal. After Company has performed its initial training obligations pursuant to the first two (2) PF Restaurants developed and opened hereunder, the Training Director shall be responsible for training all of Developer's employees and independent contractors in meeting, achieving and maintaining the Standards. The "**Training Director**" is a person employed by Developer on a full-time basis that (i) has successfully passed to Company's satisfaction, Company's initial training program and such additional and supplemental training programs as Company may require from time to time, (ii) is certified by Company to train Developer's PF Restaurant-level employees in meeting, achieving and maintaining the Standards, and (iii) is principally reasonable for ensuring that Developer's employees and independent contractors are so trained and retrained from time to time and are performing to meet, achieve and maintain the Standards. Company may charge Developer a fee for training any Training Director.

10.2.3 Each PF Restaurant must be operated and supervised only by persons that have successfully completed the training as specified by Company and/or who have been trained by Developer's certified trainer.

10.3 Business Practices. Developer represents, warrants and covenants to Company that:

10.3.1 As of the date of this Agreement, Developer and each of its Owners (if Developer is an Entity) shall be and, during the Term shall remain, in full compliance with all applicable laws in each jurisdiction in which Developer or any of its Owners (if Developer is an Entity), as applicable, conducts business that prohibits unfair, fraudulent or corrupt business practices in the performance of its obligations under this Agreement and related activities, including the following prohibitions:

(a) No government official, official of an international organization, political party or official thereof, or candidate is an owner or has any investment interest in the revenues or profit of Developer;

(b) None of the property or interests of Developer or any of its Owners is subject to being "blocked" under any Anti-Terrorism Laws. Neither Developer, nor any of its respective funding sources (including any legal or beneficial owner of any equity in Developer) or any of its Affiliates is or has ever been a terrorist or suspected terrorist within the meaning of the Anti-Terrorism Laws or identified by name or address on any Terrorist List. Each of Developer and its Owners are in compliance with Applicable Law, including all such Anti-Terrorism Laws;

(c) Neither Developer nor any of its Owners conducts any activity, or has failed to conduct any activity, if such action or inaction constitutes a money laundering crime, including any money laundering crime prohibited under the International Money Laundering Abatement and Anti-Terrorist Financing Act, as amended, and any amendments or successors thereto.

(d) Developer is neither directly nor indirectly owned or controlled by the government of any country that is subject to a United States embargo. Nor does Developer or its Owners act directly or indirectly on behalf of the government of any country that is subject to a United States embargo.

10.3.2 Developer has taken all necessary and proper action required by Applicable Law and has the right to execute this Agreement and perform under all of its terms. Developer shall implement and comply with anti-money laundering policies and procedures that incorporate "know-your-customer" verification programs and such other provisions as may be required by applicable law.

10.3.3 Developer shall implement procedures to confirm, and shall confirm, that (a) none of Developer, any person or entity that is at any time a legal or beneficial owner of any interest in Developer or that provides funding to Developer is identified by name or address on any Terrorist List or is an Affiliate of any person so identified; and (b) none of the property or interests of Developer is subject to being "blocked" under any Anti-Terrorism Laws.

10.3.4 Developer shall promptly notify Company upon becoming aware of any violation of this Section or of information to the effect that any person or entity whose status is subject to confirmation pursuant to Section 10.3.1(c) is identified on any Terrorist List, any list maintained by OFAC or to being "blocked" under any Anti-Terrorism Laws, in which event Developer shall cooperate with Company in an appropriate resolution of such matter.

10.3.5 In accordance with Applicable Law, none of Developer nor any of its Affiliates, principals, partners, officers, directors, managers, employees, agents or any other persons working on their behalf, shall offer, pay, give, promise to pay or give, or authorize the payment or gift of money or anything of value to any officer or employee of, or any person or entity acting in an official capacity on behalf of, the Governmental Authority, or any political party or official thereof or while knowing that all or a portion of such money or thing of value will be offered, given or promised, directly or indirectly, to any official, for the purpose of (a) influencing any action or decision of such official in his or its official capacity; (b) inducing such official to do or omit to do any act in violation of his or its lawful duty; or (c) inducing such official to use his or its influence with any Governmental Authority to affect or influence any act or decision of such Governmental Authority in order to obtain certain business for or with, or direct business to, any person.

10.3.6 The provisions of this Section shall not limit, restrain or otherwise affect any right or cause of action which may accrue to Company for any infringement of, violation of, or interference with, this Agreement, or the Marks, System, Confidential Information, or any other proprietary aspects of Company's business.

10.4 Reports. Developer shall submit to Company the following financial information for Developer and the Subsidiaries:

10.4.1 On or before the 45th day following each calendar quarter during the Term, Developer shall submit to Company accurate and complete financial statements for the preceding calendar quarter, including a balance sheet and profit and loss statement, prepared in the form and manner prescribed by the Company and in accordance with sound accounting principles.

10.4.2 Within 90 days following the end of each calendar year during the Term, Developer shall submit to Company an unaudited annual financial statement prepared in accordance with sound accepted accounting principles, and in such form and manner prescribed by Company, which shall be certified by Developer to be accurate and complete.

## ARTICLE 11
## GENERAL CONDITIONS AND PROVISIONS

11.1 Relationship of Developer to Company. It is expressly agreed that the parties intend by this Agreement to establish between Company and Developer the relationship of licensor and area developer. It is further agreed that Developer has no authority to create or assume in Company's name or on behalf of Company, any obligation, express or implied, or to act or purport to act as agent or representative on behalf of Company for any purpose whatsoever. Neither Company nor Developer is the employer, employee, agent, partner or co-venturer of or with the other, each being independent. Developer agrees that it will not hold itself out as the agent, employee, partner or co-venturer of Company. All employees hired by or working for Developer shall be the employees of Developer and shall not, for any purpose, be deemed employees of Company or subject to Company control. Each of the parties agrees to file its own tax, regulatory and payroll reports with respect to its respective employees and operations, saving and indemnifying the other party hereto of and from any liability of any nature whatsoever by virtue thereof.

11.2 Indemnity by Developer. Developer hereby agrees to protect, defend and indemnify Company, and all of its past, present and future Owners, Affiliates, officers, directors, employees, attorneys and designees and hold them harmless from and against any and all costs and expenses, including attorneys' fees, court costs, losses, liabilities, damages, claims and demands of every kind or nature on account of any actual or alleged loss, injury or damage to any person, individual or Entity or to any property arising out of or in connection with Developer's construction, development and/or operation of PF Restaurants pursuant hereto, except to the extent caused by intentional acts of the Company in breach of this Agreement. The terms of this Section 11.2 shall survive the termination, expiration or cancellation of this Agreement.

11.3 No Consequential Damages For Legal Incapacity. Company shall not be liable to Developer for any consequential damages, including lost profits, interest expense, increased construction or occupancy costs, or other costs and expenses incurred by Developer by reason of any delay in the delivery of Company's Franchise Disclosure Document caused by legal incapacity during the Term, or other conduct not due to the gross negligence or intentional misfeasance of Company.

11.4 Waiver and Delay. No waiver by Company of any Default or Defaults, or series of Defaults in performance by Developer, and no failure, refusal or neglect of Company to exercise any right, power or option given to it hereunder or under any Franchise Agreement or other agreement between Company and Developer, whether entered into before, after or contemporaneously with the execution hereof (and whether or not related to the PF Restaurants), or to insist upon strict compliance with or performance of Developer's (or its Affiliates) obligations under this Agreement or any Franchise Agreement or other agreement between Company and Developer (or its Affiliates), whether entered into before, after or contemporaneously with the execution hereof (and whether or not related to the PF Restaurants), shall constitute a waiver of the provisions of this Agreement with respect to any continuing or subsequent Default or a waiver by Company of its right at any time thereafter to require exact and strict compliance with the provisions thereof. Company will consider written requests by Developer for Company's consent to a waiver of any obligation imposed by this Agreement. Developer agrees, however, that Company is not required to act uniformly with respect to waivers, requests and consents as each request will be considered on a case by case basis, and nothing shall be construed to require Company to grant any such request. Any waiver granted by Company shall be without prejudice to any other rights Company may have, will be subject to continuing review by Company, and may be revoked, in Company's discretion, at any time and for any reason. Company makes no warranties or guarantees upon which Developer may rely, and assumes no liability or obligation to Developer by providing any waiver, approval, acceptance, consent, assistance, or suggestion to Developer in connection with this Agreement, or by reason of any neglect, delay, or denial of any request.

# PIZZA FACTORY
# AREA DEVELOPMENT AGREEMENT

**BY AND BETWEEN**

**Pizza Factory, Inc.**

**AND**

________________________________________

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Franchise Disclosure Document provided to Developer, this Agreement shall control. Nothing in this Agreement, including all schedules attached hereto, and all agreements or documents which by the provisions of this Agreement are expressly incorporated herein or made a part hereof is intended to disclaim the representations Company made in any required franchise disclosure document received by Developer. Developer has read all of the terms of this Agreement, including, the preceding paragraph: _______________ [Developer initial]

11.10 Titles for Convenience. Article and paragraph titles used in this Agreement are for convenience only and shall not be deemed to affect the meaning or construction of any of the terms, provisions, covenants, or conditions of this Agreement.

11.11 Gender and Construction. The terms of all Exhibits hereto are hereby incorporated into and made a part of this Agreement as if the same had been set forth in full herein. All terms used in any one number or gender shall extend to mean and include any other number and gender as the facts, context, or sense of this Agreement or any article or Section hereof may require. When a reference is made in this Agreement to an Article, Section or Exhibit, such reference shall be to an Article, Section or Exhibit to this Agreement, unless otherwise indicated. As used in this Agreement, the words “include,” “includes” or “including” are used in a non-exclusive sense. Unless otherwise expressly provided herein to the contrary, any consent, approval, acceptance or authorization of Company which Developer may be required to obtain hereunder may be given or withheld by Company in its sole discretion, and on any occasion where Company is required or permitted hereunder to make any judgment, determination or use its discretion, including any decision as to whether any condition or circumstance meets Company’s Standards or satisfaction, Company may do so in its sole subjective judgment and discretion. No provision herein expressly identifying any particular breach of this Agreement as material shall be construed to imply that any other breach which is not so identified is not material. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against the drafter hereof, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto. Company and Developer intend that if any provision of this Agreement is susceptible to two or more constructions, one of which would render the provision enforceable and the other or others of which would render the provision unenforceable, then the provision shall be given the meaning that renders it enforceable.

11.12 Severability, Modification. Nothing contained in this Agreement shall be construed as requiring the commission of any act contrary to Applicable Law. Whenever there is any conflict between any provisions of this Agreement and any present or future statute, law, ordinance or regulation contrary to which the parties have no legal right to contract, the latter shall prevail, but in such event the provisions of this Agreement thus affected shall be curtailed and limited only to the extent necessary to bring it within the requirements of the law. In the event that any part, article, paragraph, sentence or clause of this Agreement shall be held to be indefinite, invalid or otherwise unenforceable, the indefinite, invalid or unenforceable provision shall be deemed deleted, and the remaining part of this Agreement shall continue in full force and effect.

11.13 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

11.14 Fees and Expenses. If any party to this Agreement shall bring any arbitration, action or proceeding for any relief against the other, declaratory or otherwise, arising out of this Agreement, the losing party shall pay to the prevailing party a reasonable sum for attorney fees and costs incurred in bringing or defending such arbitration, action or proceeding and/or enforcing any judgment granted therein, all of which shall be deemed to have accrued upon the commencement of such arbitration, action or proceeding and shall be paid whether or not such action or proceedings is prosecuted to final judgment. Any judgment or order entered in such action or proceeding shall contain a specific provision providing for the recovery of attorney fees and costs, separate from the judgment, incurred in enforcing such judgment. The prevailing party shall be determined by the trier of fact based upon an assessment of which party's major arguments or positions on major disputed issues. For the purposes of this Section, attorney fees shall include fees incurred in the following: (1) post-judgment motions; (2) contempt proceedings; (3) garnishment, levy, debtor and third party examinations; (4) discovery; and (5) bankruptcy litigation. This Section is intended to be expressly severable from the other provisions of this Agreement, is intended to survive any judgment and is not to be deemed merged into the judgment.

11.15 Arbitration of Disputes; Time for Bringing Claims.

11.15.1 Except as provided in Section 11.15.2 and except as precluded by Applicable Law, any controversy or claim between Company and Developer arising out of or relating to this Agreement or any alleged breach hereof, including any disputes arising out of or concerning Franchise Agreements between Developer and Company, and any issues pertaining to the arbitrability of such controversy or claim and any claim that this Agreement or any part hereof is invalid, illegal, or otherwise voidable or void, shall be submitted to binding arbitration. Said arbitration shall be conducted before one arbitrator and in administered by Judicial Arbitration and Mediation Service, Inc. or its successor ("**JAMS**") pursuant to its then-current Comprehensive Arbitration Rules and Procedures. The parties will cooperate with JAMS and with one another in selecting an arbitrator from JAMS's panel of arbitrators pursuant to the applicable rules, and in scheduling the arbitration proceedings. The parties covenant that they will participate in the arbitration in good faith, and that they will share equally in its costs. Judgment upon any award rendered may be entered in any Court having jurisdiction thereof. Except to the extent prohibited by Applicable Law, the proceedings shall be held in the county in which Company's headquarters is located. All arbitration proceedings and claims shall be filed and prosecuted separately and individually in the name of Developer and Company and not in any class action or representative capacity, and shall not be joined with or consolidated with claims asserted by or against any other developer. The arbitrator shall have no power or authority to grant punitive or exemplary damages as part of its award. In no event may the material provisions of this Agreement including, to the methods of operation, monetary obligations specified in this Agreement, amendments to this Agreement or in the Company's operations manuals be modified or changed by the arbitrator at any arbitration hearing. The substantive law applied in such arbitration shall be as provided in Section 11.8. The arbitration and the parties' agreement therefor shall be deemed to be self-executing, and if either party fails to appear at any properly noticed arbitration proceeding, an award may be entered against such party despite said failure to appear. All issues relating to arbitrability or the enforcement of the agreement to arbitrate contained herein shall be governed by the Federal Arbitration Act (9 U.S.C. § 1 et seq.), notwithstanding any provision of this Agreement specifying the state law under which this Agreement shall be governed and construed.

11.15.2 Notwithstanding anything to the contrary contained in Section 11.15.1 of this Agreement, Company and Developer will each have the right in a proper case to obtain specific performance, temporary restraining orders and temporary or preliminary injunctive relief from a court of competent jurisdiction, and other provisional relief including but not limited to enforcement of liens, security agreements, or attachment. However, the parties will contemporaneously submit their dispute for arbitration on the merits. The parties may have temporary or preliminary injunctive relief without bond, but upon due notice, and a party's sole remedy in the event of the entry of such injunctive relief against such party will be the dissolution of the injunctive relief, if warranted, upon hearing duly had (all claims for damages by reason of the wrongful issuance of any the injunction being expressly waived).

11.15.3 The party prevailing in any judicial or arbitration proceeding will be entitled to reimbursement of its costs and expenses, including reasonable arbitrators', accounting and legal fees, whether incurred prior to, in preparation for or in contemplation of the filing of any written demand, claim, action, hearing or proceeding to enforce the obligations of this Agreement.

11.15.4 Any and all claims and actions arising out of or relating to this Agreement, the relationship of Company and Developer, or Developer's operation of its business, must be brought or asserted before the expiration of the earlier of (a) the time period for bringing an action under any applicable state or federal statute of limitations; (b) one (1) year after the date upon which a party discovered, or should have discovered, the facts giving rise to an alleged claim; or (c) two (2) years after the first act or omission giving rise to an alleged claim; or its expressly acknowledged and agreed by all parties that such claims or actions shall be irrevocably barred. Claims of Company attributable to underreporting of sales, and claims of the parties for failure to pay monies owed and/or indemnification shall be subject to only the applicable state or federal statute of limitations.

11.15.5 The terms of this Section 11.15 shall survive termination, expiration or cancellation of this Agreement.

11.16 Notices. Except as otherwise expressly provided herein, all written notices and reports permitted or required to be delivered by the parties pursuant hereto shall be deemed so delivered at the time delivered by hand; one business day after transmission by facsimile or other electronic system expressly approved in the manuals as appropriate for delivery of notices hereunder (with confirmation copy sent by regular U.S. mail), or 3 business days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid and addressed as follows:

If to Company: Pizza Factory, Inc.
49430 Road 426, Suite D
PO Box 989
Oakhurst, California 93644

With copy (which shall not constitute notice) to:

Keith D. Klein Esq.
Bryan Cave Leighton Paisner LLP
120 Broadway, Suite 300
Santa Monica, CA 90401-2386
Facsimile No.: (310) 576-2200

If to Developer: See Section 1.1

or to such other address as such party may designate by 10 days' advance written notice to the other party.

## ARTICLE 12
## ACKNOWLEDGMENT

12.1 Submission of Agreement. The submission of this Agreement does not constitute an offer and this Agreement shall become effective only upon the execution thereof by Company and Developer.

12.2 General

12.2.1 Developer acknowledges that it has carefully read this Agreement and all other related documents to be executed concurrently or in conjunction with the execution hereof, that it has obtained the advice of counsel in connection with entering into this Agreement, that it understands the nature of this Agreement, and that it intends to comply herewith and be bound hereby.

12.2.2 Company expressly disclaims making, and Developer acknowledges that it or they have not received or relied on any warranty or guarantee, express or implied, as to the potential volume, profits, expenses, or success of the business venture contemplated by this Agreement

**[SIGNATURE PAGE FOLLOWS]**

.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the first date set forth above.

"**Developer**"

______________________________
a ____________________________

By:_________________________________
Name:_______________________________
Title:______________________________

By:_________________________________
Name:_______________________________
Title:______________________________

"**Company**"

**Pizza Factory, Inc.**
a California corporation

By:_________________________________
Name:_______________________________
Title:______________________________

ACCEPTED on this ______ day of ___________, 20____.

**Exhibit A**
**DEVELOPMENT AREA**

The Development Area* is defined as the territory within the boundaries described below:

______________________________________________________________________
______________________________________________________________________
______________________________________________________________________
______________________________________________________________________
______________________________________________________________________
______________________________________________________________________
______________________________________________________________________
______________________________________________________________________

* If the Development Area is defined by streets, highways, freeways or other roadways, or rivers, streams, or tributaries, then the boundary of the Development Area shall extend to the center line of each such street, highway, freeway or other roadway, or river, stream, or tributary.

**EXHIBIT B**
**DEVELOPMENT OBLIGATION**

| | DEVELOPMENT PERIOD ENDING | CUMULATIVE NO. OF TRADITIONAL PF RESTAURANTS TO BE IN OPERATION |
|---|---|---|
| 1 | ______________________________ | _______________ |
| 2 | ______________________________ | _______________ |
| 3 | ______________________________ | _______________ |
| 4 | ______________________________ | _______________ |
| 5 | ______________________________ | _______________ |

**EXHIBIT C**
**Entity Information**

Developer represents and warrants that the following information is accurate and complete in all material respects:

(i) Developer is a (check as applicable):
[ ] corporation
[ ] limited liability company
[ ] general partnership
[ ] limited partnership
[ ] Other (specify): ____________________________

(ii) Developer shall provide to Company concurrently with the execution hereof true and accurate copies of its charter documents including Articles of Incorporation, Bylaws, Operating Agreement, Regulations Partnership Agreement, resolutions authorizing the execution hereof, and any amendments to the foregoing ("**Entity Documents**").

(iii) Developer promptly shall provide such additional information as Company may from time to time request concerning all persons who may have any direct or indirect financial interest in Developer.

(iv) The name and address of each of Developer's owners, members, or general and limited partner:

| NAME | ADDRESS | NUMBER OF SHARES OR PERCENTAGE INTEREST |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |

(v) There is set forth below the names, and addresses and titles of Developer's principal officers or partners who will be devoting their full time to the PF Restaurants:

| NAME | ADDRESS |
|---|---|
| | |
| | |
| | |
| | |

(vi) The address where Developer's Financial Records, and Entity Documents are maintained is: ____________________________________________________________

____________________________________________________________

## APPENDIX 1

"**Affiliate**" when used herein in connection with Company or Developer, includes each person or Entity which directly, or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with Company or Developer, as applicable. Without limiting the foregoing, the term "Affiliate" when used herein in connection with Developer includes any Entity 10% or more of whose Equity or voting control, is held by person(s) or Entities who, jointly or severally, hold 10% or more of the Equity or voting control of Developer. For purposes of this definition, control of a person or Entity means the power, direct or indirect, to direct or cause the direction of the management and policies of such person or Entity whether by contract or otherwise. Notwithstanding the foregoing definition, if Company or its Affiliate has any ownership interest in Developer, the term "Affiliate" shall not include or refer to the Company or that Affiliate (the "**Company Affiliate**"), and no obligation or restriction upon an "Affiliate" of Developer, shall bind Company, or said Company Affiliate or their respective direct/indirect parents or subsidiaries, or their respective officers, directors, or managers.

"**Anti-Terrorism Laws**" means Executive Order 13224 issued by the President of the United States of America (or any successor Order), the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act) of 2001 (or any successor legislation) and all other present and future national, provincial, federal, state and local laws, ordinances, regulations, policies, lists, Orders and any other requirements of any Governmental Authority addressing or in any way relating to terrorist acts and acts of war.

"**Applicable Law**" means and includes applicable common law and all applicable statutes, laws, rules, regulations, ordinances, policies and procedures established by any Governmental Authority, including all laws governing the development, construction and operation of a PF Restaurant, all labor, immigration, disability, privacy, food and drug laws and regulations, as in effect on the Effective Date hereof, and as may be amended, supplemented or enacted from time to time.

"**Assignment**" shall means any assignment, sale, transfer, gift, lien, pledge, mortgage, hypothecation, conveyance, encumbrance, grant of a security interest, or other conveyance, voluntarily or involuntarily, in whole or in part, by operation of Applicable Law or otherwise, of any interest in this Agreement or any of Developer's rights or privileges hereunder, or all or any substantial portion of the assets of Developer; provided, further, however, that if Developer is an Entity, each of the following shall be deemed to be an Assignment of this Agreement: (i) the sale, assignment, transfer, conveyance, gift, lien, pledge, mortgage, hypothecation, grant of a security interest, or other encumbrance of more than 49% in the aggregate, whether in one or more transactions, of the Equity or voting power of Developer, by operation of law or otherwise or any other event(s) or transaction(s) which, directly or indirectly, effectively changes control of Developer; (ii) the issuance or change of any securities by, or Equity of, Developer which itself or in combination with any other transaction(s) results in the Owners, as constituted on the Effective Date, or the date of the last Assignment for which Company granted its consent, whichever is later, owning less than 51% of the outstanding Equity or voting power of Developer; (iii) if Developer is a Partnership, the resignation, removal, withdrawal, death or legal incapacity of a general partner or of any limited partner owning more than 49% of the Partnership Rights of the Partnership, or the admission of any additional general partner, or the transfer by any general partner of any of its Partnership Rights in the Partnership, or any change in the ownership or control of any general partner; (iv) the death or legal incapacity of any Owner owning more than 49% of the Equity or voting power of Developer; (v) any merger, stock redemption, conversion, consolidation, reorganization, recapitalization involving, directly or indirectly, Developer or any Owner, and/or (vi) transfer of control of Developer, however effected.

"**Competitive Activities**" means to, own, operate, lend to, advise, be employed by, or have any financial interest in (i) any restaurant 10% or more of whose gross sales is derived from the sale of pizza or pasta, other than a PF Restaurant operated pursuant to a validly subsisting Franchise Agreement with Company, or (ii) any business that specializes in developing, owning, operating or franchising restaurants 10% or more of whose gross sales is derived from the sale of pizza or pasta, or (iii) any business engaged in the preparation, production or sale, at wholesale, of any pizza or pasta food product. Notwithstanding the foregoing, "**Competitive Activities**" shall not include the direct or indirect ownership solely as an investment, of securities of any Entity which are traded on any national securities exchange if applicable owner thereof (i) is not a controlling person of, or a member of a group which controls, such Entity and (ii) does not, directly or indirectly, own 5% or more of any class of securities of such Entity.

"**Confidential Information**" means proprietary and confidential information and trade secrets of Company, including, Standards, specifications, programs, supplier information, procedures, policies, recipes, concepts, systems, know-how, plans, software, strategies, methods, programs, routines, service techniques, services, clothing designs, techniques and plans for advertising, promoting, developing and operating PF Restaurants.

"**Default**" or "**default**" means any breach of, or failure to comply with, any of the terms or conditions of an agreement.

"**Development Area**" shall have the meaning set forth in <u>Section 1.1</u> of this Agreement.

"**Development Obligation**" shall mean the Developer's right and obligation to construct, equip, open and thereafter continue to operate at sites within the Development Area the cumulative number of PF Restaurants set forth in <u>Exhibit B</u> hereto within each Development Period and, if applicable, within the geographic areas specified therein.

"**Development Period**" means each of the time periods indicated on <u>Exhibit B</u> during which Developer shall have the right and obligation to construct, equip, open and thereafter continue to operate PF Restaurants in accordance with the Development Obligation.

"**Entity**" means any limited liability company, Partnership, trust, association, corporation or other entity that is not an individual.

"**Equity**" means capital stock, membership interests, Partnership Rights or other equity ownership interests of an Entity.

"**Franchise Agreement**" means the form of agreement prescribed by Company and used to grant to Developer the right to own and operate a single PF Restaurant in the Development Area, including all exhibits, riders, guarantees or other related instruments, all as amended from time to time.

"**Franchise Disclosure Document**" shall have the meaning set forth in Section 6.2.4.

"**Force Majeure**" means acts of God (such as tornadoes, earthquakes, hurricanes, floods, fire or other natural catastrophe); strikes, lockouts or other industrial disturbances; war, terrorist acts, riot, or other civil disturbance; epidemics; or other similar forces which Developer could not by the exercise of reasonable diligence have avoided; provided however, that neither an act or failure to act by a Governmental Authority, nor general economic conditions; nor the performance, non-performance or exercise of rights under any agreement with Developer by any lender, landlord, contractor, or other person shall be an event of Force Majeure, except to the extent that such act, failure to act, performance, non-performance or exercise of rights results from an act which is otherwise an event of Force Majeure. For the avoidance of doubt, Developer's financial inability to perform or Developer's insolvency shall not be an event of Force Majeure.

"**Governmental Authority**" means and includes all Federal, state, county, municipal and local governmental and quasi-governmental agencies, commissions and authorities.

"**Initial Franchise Fee**" shall have the meaning set forth in Section 5.2.

"**Non-Traditional Venue**" means a location within another primary business or in conjunction with institutional and other business settings, including toll roads, hotels and motels, ships, ports, piers, casinos, amusement parks, arenas, stadiums, airports, theaters, big-box retailers, building supply stores, warehouse club stores, colleges and universities, schools, hospitals, military and other governmental facilities, office or in-plant food service facilities, shopping mall food courts operated by a master concessionaire, grocery stores, supermarkets and convenience stores and any site for which the lessor, owner or operator thereof shall have indicated its intent to prefer or limit the operation of its food service facilities to a master concessionaire or contract food service provider.

"**Owner**" means any direct or indirect shareholder, member, general or limited partner, trustee, or other equity owner of an Entity, except, that if Company or any Affiliate of Company has any ownership interest in Developer, the term "Owner" shall not include or refer to the Company or that Affiliate or their respective direct and indirect parents and subsidiaries, and no obligation or restriction upon the "Developer", or its Owners shall bind Company, said Affiliate or their respective direct and indirect parents and subsidiaries or their respective officers, directors, or managers.

"**Partnership**" means any general partnership, limited partnership or limited liability partnership.

"**Partnership Rights**" means voting power, property, profits or losses, or partnership interests of a Partnership.

"**Restricted Persons**" means the Developer, and each of its Owners and Affiliates, and the respective officers, directors, managers, and Affiliates of each of them, and the spouse and family members who live in the same household of each of the foregoing who are individuals, except, that if Company or any Affiliate of Company has any ownership interest in Developer, (i) the term "Restricted Person" shall not include or refer to the Company or that Affiliate or their respective direct and indirect parents and subsidiaries, (ii) the term "Restricted Person" shall not include or refer to any manager, officer or director of Developer that is designated to be manager, officer or director of Developer by the Company or its Affiliates; and (iii) no obligation or restriction upon the "Developer", or its Owners shall bind Company, said Affiliate or their respective direct and indirect parents and subsidiaries or their respective officers, directors, or managers.

"**ROFR**" shall have the meaning set forth in Section 7.3.4.

"**ROFR Period**" shall have the meaning set forth in Section 7.3.4.

"**Site Review Request**" shall have the meaning set forth in Section 6.1.

"**Standards**" mean Company's then-current specifications, standards, policies, procedures and rules prescribed for the development, ownership and operation of **a** PF Restaurant, as modified by Company from time to time in writing.

"**System**" means the Company's business formats, operating methods and business practices related to a PF Restaurant, and the relationship between Company and its developers and franchisees, including interior and exterior PF Restaurant designs; other items of trade dress; specifications of equipment, fixtures, and uniforms; recipes, ingredients, menus, techniques; copyrights, procedures, signs, layouts, defined product offerings, methods of operation, and preparation methods; standard operating and administrative procedures; restrictions on ownership; management and technical training programs; and marketing and public relations programs; all as Company may modify the same from time to time.

"**Term**" shall have the meaning set forth in Section 4.1.

"**Terrorist Lists**" means all lists of known or suspected terrorists or terrorist organizations published by any U.S. Government Authority, including U.S. Treasury Department's Office of Foreign Asset Control ("**OFAC**"), that administers and enforces economic and trade sanctions, including against targeted non-U.S. countries, terrorism sponsoring organizations and international narcotics traffickers.

"**Then-current**" as used in this Agreement and applied to the Franchise Disclosure Document, an area development agreement and a Franchise Agreement shall mean the form then currently provided by Company to similarly situated prospective franchisees or area developers, or if not then being so provided, then such form selected by the Company in its discretion which previously has been delivered to and executed by a licensee, area developer or franchisee, as applicable, of Company.

"**Traditional PF Restaurant**" means a business premises that exists (or will exist, as the case may be) primarily as a "Pizza Factory" restaurant, excluding all Non-Traditional Venues and PF Restaurants at Non-Traditional Venues.

"**Venue**" means any location that is not a Non-Traditional Venue.

**Exhibit F**
**Pizza Factory Sample Menu**

Revised 10/2020


Exhibit F to Disclosure Document

# APPETIZERS

**TWISTED BREADSTIX** 4.95

**CHEESY STIX** 5.95

**GARLIC BREAD** 1.95
**With cheese** 2.95

**PIZZA BREAD** 5.95

**WINGS**
10 wings 8.95 | 20 wings 17.95

Oven Roasted - Classic, baked-in flavor
BBQ - Tossed in our signature Pizza Factory® BBQ sauce
Hot - Tossed in our signature Pizza Factory® wing sauce, for those who like some heat

# SALADS & SOUP
## YOUR CHOICE OF SALAD DRESSING

**ALL-YOU-CAN-EAT SALAD** 7.95

**DINNER SALAD** 3.95

**ANTIPASTO** 7.95

**GREEK** 6.95
**With chicken** 7.95

**CAESAR** 6.95 **With chicken** 7.95

# PASTAS
## ALL SERVED WITH OUR TOASTED GARLIC BREAD

**LASAGNA** 9.95

**SPAGHETTI AND MEATBALLS** 9.95

**BAKED SPAGHETTI** 7.95

**FETTUCCINE ALFREDO** 7.95
**With chicken*** 9.95

**RAVIOLI** 8.25

# CALZONES
## BAKED TO PERFECTION

**INDIVIDUAL** 8.95 | **LARGE** (Big enough for two) 16.95

**COMBO**

**VEGGIE**

**CUSTOM**

**SIGNATURE PIZZA FACTORY DISHES**

★ALL OUR CHICKEN IS 100% ALL NATURAL

WE SERVE ONLY 100% MOZZARELLA CHEESE

WE'LL MAKE YOUR PIZZA WITH A THIN CRUST OR THE REGULAR, THICK, OLD-FASHIONED WAY IN ANY COMBINATION YOU LIKE: 1/2 & 1/2, 1/4 & 3/4, NO CHEESE, EXTRA SAUCE. (ADDITIONAL CHARGES MAY APPLY)

# PIZZA
## ALL PIZZAS ARE HAND-TOSSED WITH DOUGH MADE IN-HOUSE, SIGNATURE PIZZA SAUCE, AND 100% MOZZARELLA CHEESE

| | MINI | SMALL | MEDIUM | LARGE | X-LARGE |
|---|---|---|---|---|---|
| **SPECIALTIES & NEIGHBORHOOD FAVORITES** | | | | | |
| **ALL MEAT** | 8.50 | 14.95 | 19.50 | 23.50 | 24.35 |
| **PIZZA FACTORY SPECIAL** | 7.95 | 13.95 | 17.95 | 22.50 | 23.55 |
| **VEGGIE** | 7.95 | 13.05 | 17.95 | 22.50 | 23.55 |
| **HAWAIIAN** | 7.95 | 11.25 | 15.25 | 18.45 | 20.95 |
| **RAM SPECIAL** | 7.95 | 13.25 | 17.95 | 22.50 | 23.95 |
| **CHICKEN** | | | | | |
| **GRILLED OR BBQ CHICKEN** | 7.75 | 12.45 | 16.95 | 21.25 | 22.95 |
| **WESTERN BBQ CHICKEN** | 7.95 | 13.25 | 17.95 | 22.50 | 23.95 |
| **GOURMET** | | | | | |
| **PESTO, SUN-DRIED TOMATO & GARLIC** | 7.50 | 12.95 | 17.25 | 21.75 | 23.55 |
| **GREEK** | 7.95 | 13.25 | 17.95 | 22.50 | 23.95 |
| **SPINACH & GARLIC** | 7.50 | 12.95 | 17.25 | 21.75 | 22.95 |
| **CREATE YOUR OWN** | | | | | |
| **CHEESE** | 5.35 | 9.25 | 12.75 | 15.65 | 17.45 |
| **ADDITIONAL TOPPINGS** | .45 each | 1.00 each | 1.25 each | 1.50 each | 1.75 each |

**VEGGIES**
Artichokes, Garlic, Olives, Mushrooms, Spinach, Tomatoes, Jalapeño Peppers, Sun-dried Tomatoes, Bell Peppers, White Onions, Red Onions

**MEATS**
Pepperoni, Sausage, Canadian Bacon, Bacon, Italian Ham, Meatballs

**EXTRA FLAVOR**
Chicken, Anchovies, Pineapple, Feta Cheese, Olive Oil, Herb Crust

1187426.2

**Exhibit G**
**Pizza Factory Manual of Standard Operating Procedures (Table of Contents Only)**

# Table of Contents

## Exhibit H
## List of State Administrators and Agents For Service of Process

# LIST OF STATE ADMINISTRATORS AND AGENTS FOR SERVICE OF PROCESS

| State | Administrator | Agent for Service of Process |
| --- | --- | --- |
| CALIFORNIA | Commissioner of Department of Financial Protection and Innovation<br>320 West 4th Street, Suite 750<br>Los Angeles, California 90013-2344<br>(213) 576-7500<br>(866) 275-2677 Toll Free | Commissioner of the Department of Financial Protection and Innovation<br>1515 K Street, Suite 200<br>Sacramento, California 95814 |
| HAWAII | Commissioner of Securities of the State of Hawaii<br>Business Registration Division<br>Securities Compliance Branch<br>335 Merchant Street, Room 203<br>Honolulu, HI 96813<br>(808) 586-2722 | Commissioner of Securities of the State of Hawaii<br>Business Registration Division<br>Securities Compliance Branch<br>335 Merchant Street, Room 203<br>Honolulu, HI 96813<br>(808) 586-2722 |
| ILLINOIS | Chief, Franchise Bureau<br>Office of Attorney General<br>500 South Second Street<br>Springfield, Illinois 62706<br>(217) 782-1090 | Illinois Attorney General Office<br>500 South Second Street<br>Springfield, Illinois 62706 |
| INDIANA | Franchise Section<br>Indiana Securities Division<br>302 West Washington Street<br>Room E-111<br>Indianapolis, Indiana 46204<br>(317) 232-6681 | Indiana Securities Division<br>302 West Washington Street<br>Room E-111<br>Indianapolis, Indiana 46204 |
| MARYLAND | Office of the Attorney General<br>Securities Division<br>200 St. Paul Place<br>Baltimore, Maryland 21202<br>(410) 576-6360 | Maryland Securities Commissioner<br>200 Saint Paul Place<br>Baltimore, Maryland 21202-2020 |
| MICHIGAN | Franchise Administrator<br>Consumer Protection Division<br>Antitrust and Franchise Unit<br>Michigan Dept. of Attorney General<br>670 Law Building<br>525 W. Ottawa Street<br>Lansing, Michigan 48913<br>(517) 373-7117 | Franchise Administrator<br>Consumer Protection Division<br>Antitrust and Franchise Unit<br>Michigan Dept. of Attorney General<br>670 Law Building<br>525 W. Ottawa Street<br>Lansing, Michigan 48913<br>(517) 373-7117 |

| State | Administrator | Agent for Service of Process |
|---|---|---|
| MINNESOTA | Commissioner of Commerce<br>Minnesota Department of Commerce<br>85 Seventh Place East, Suite 280<br>St. Paul, Minnesota 55101<br>(651) 539-1638 | Commissioner of Commerce<br>State of Minnesota<br>Department of Commerce<br>Registration Division<br>85 Seventh Place East Suite 280<br>St. Paul, Minnesota 55101 |
| NEW YORK | NYS Department of Law<br>Investor Protection Bureau<br>28 Liberty Street, 21st Floor<br>New York, New York 10005<br>(212) 416-8236 | New York Secretary of State<br>New York Department of State<br>One Commerce Plaza<br>99 Washington Avenue, 6th Floor<br>Albany, New York 12231-0001 |
| NORTH DAKOTA | Franchise Examiner<br>North Dakota Securities Department<br>600 East Boulevard Avenue<br>State Capitol, Fifth Floor, Dept. 414<br>Bismarck, North Dakota 58505-0510<br>(701) 328-4712 | North Dakota Securities Department<br>600 East Boulevard Avenue<br>State Capitol, Fifth Floor, Dept. 414<br>Bismarck, North Dakota 58505-0510 |
| RHODE ISLAND | Director of the Rhode Island Department of Business Regulation<br>1511 Pontiac Avenue<br>Cranston, Rhode Island 02920<br>(401) 462-9500 | Director of Business Regulation<br>1511 Pontiac Avenue<br>Cranston, Rhode Island 02920 |
| SOUTH DAKOTA | Registration Specialist, Securities Regulation<br>Department of Labor and Regulation<br>Division of Insurance<br>124 S. Euclid Avenue 2nd Floor<br>Pierre, South Dakota 57501-3185<br>(605) 773-3563 | Director of the Division of Insurance<br>Securities Regulation<br>Department of Labor and Regulation<br>124 S. Euclid Avenue Second Floor<br>Pierre, South Dakota 57501-3185 |
| VIRGINIA | State Corporation Commission<br>Division of Securities and Retail Franchising<br>1300 E. Main Street, Ninth Floor<br>Richmond, Virginia 23219<br>(804) 371-9051 | Clerk, State Corporation Commission<br>1300 East Main Street, First Floor<br>Richmond, Virginia 23219 |

| State | Administrator | Agent for Service of Process |
| --- | --- | --- |
| WASHINGTON | State of Washington<br>Director of Department of Financial Institutions Securities Division<br>150 Israel Rd SW<br>Tumwater, WA 98501<br>(360) 902-8760 | State of Washington<br>Director of Department of Financial Institutions<br>Securities Division<br>150 Israel Rd SW<br>Tumwater, WA 98501<br>(360) 902-8760 |
| WISCONSIN | Franchise Administrator<br>Securities and Franchise Registration<br>Wisconsin Securities Commission<br>345 W. Washington Ave., 4th Floor<br>Madison, Wisconsin 53703<br>(608) 266-8557 | Commissioner of Securities<br>Office of the Commissioner of Securities<br>345 W. Washington Ave., 4th Floor<br>Madison, Wisconsin 53703 |

In all other states:

Mary Jane Riva
49430 Road 426, Suite D, PO Box 989
Oakhurst, California, 93644
(559) 683-3377

**Exhibit I**
**State Addenda**

**ADDENDUM TO PIZZA FACTORY, INC. DISCLOSURE DOCUMENT FOR THE STATE OF CALIFORNIA**

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

Item 17, "Renewal, Termination, Transfer and Dispute Resolution," shall be amended by the addition of the following:

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

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

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

YOU MUST SIGN A GENERAL RELEASE IF YOU RENEW OR TRANSFER YOUR FRANCHISE. CALIFORNIA CORPORATIONS CODE SECTION 31512 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE INVESTMENT LAW (CALIFORNIA CORPORATIONS CODE SECTIONS 31000 THROUGH 31505). BUSINESS AND PROFESSIONS CODE SECTION 20010 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE RELATIONS ACT (BUSINESS AND PROFESSIONS CODE SECTIONS 20000 THROUGH 20043).

Neither Pizza Factory, Inc., nor any person in Item 2 of the disclosure document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling these persons from membership in this association or exchange.

SECTION 31125 OF THE FRANCHISE INVESTMENT LAW REQUIRES US TO GIVE TO YOU A DISCLOSURE DOCUMENT APPROVED BY THE COMMISSIONER OF BUSINESS OVERSIGHT BEFORE WE ASK YOU TO CONSIDER A MATERIAL MODIFICATION OF YOUR FRANCHISE AGREEMENT.

OUR WEB SITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEB SITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT at www.dbo.ca.gov.

The earnings claims figures do not reflect the costs of sales, operating expenses or other costs or expenses that must be deducted from the gross revenue or gross sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your (franchised business). Franchisees or former franchisees, listed in the franchise disclosure document, may be one source of this information.

**ADDENDUM TO PIZZA FACTORY, INC. DISCLOSURE DOCUMENT FOR THE STATE OF HAWAII**

1. The following paragraphs shall be added to the state cover page:

THESE FRANCHISES HAVE BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.

THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, OR SUBFRANCHISOR, AT LEAST SEVEN DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY THE FRANCHISEE, OR SUBFRANCHISOR, WHICHEVER OCCURS FIRST, A COPY OF THE DISCLOSURE DOCUMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.

THIS DISCLOSURE DOCUMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

The name and address of the Franchisor’s agent in this state authorized to receive service of process is the Hawaii Commissioner of Securities, 335 Merchant Street, Honolulu, Hawaii 96813.

2. Each provision of this Addendum to the Disclosure document is effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Hawaii Franchise Investment Law, Hawaii Rev. Stat. §§ 482E-1, et seq., are met independently without reference to this Addendum to the Disclosure document, and only to the extent such provision is a then valid requirement of the statute.

**ADDENDUM TO PIZZA FACTORY, INC. DISCLOSURE DOCUMENT FOR THE STATE OF NORTH DAKOTA**

1. Item 17, "Renewal, Termination, Transfer and Dispute Resolution," shall be amended by the addition of the following paragraphs:

The Securities Commissioner has held the following to be unfair, unjust or inequitable to North Dakota franchisees (Section 51-19-09, N.D.C.C.):

a. Restrictive Covenants: Franchise disclosure documents which disclose the existence of covenants restricting competition contrary to Section 9-08-06, N.D.C.C., without further disclosing that such covenants will be subject to this statute.

b. Situs of Arbitration Proceedings: Franchise Agreements providing that the parties must agree to the arbitration of the disputes at a location that is remote from the site of the franchisee's business.

c. Restriction on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.

d. Liquidated Damages and Termination Penalties: Requiring North Dakota Franchisees to consent to liquidated damages or termination penalties.

e. Applicable Laws: Franchise Agreements which specify that they are to be governed by the laws of a state other than North Dakota.

f. Waiver of Trial by Jury: Requiring North Dakota franchisees to consent to the waiver of a trial by jury.

g. Waiver of Exemplary & Punitive Damages: Requiring North Dakota franchisees to consent to a waiver of exemplary and punitive damages.

h. General Release: Franchise Agreements that require the franchisee to sign a general release upon renewal of the Franchise Agreement.

i. Limitation of Claims: Franchise Agreements that require the franchisee to consent to a limitation of claims. The statute of limitations under North Dakota law applies.

2. Item 17(r) in the table is modified by adding the following to the summary description opposite the subsection entitled "Non-competition covenants after the franchise is terminated or expires":

"Covenants not to compete such as those mentioned above are generally considered unenforceable in the State of North Dakota."

**ADDENDUM TO PIZZA FACTORY, INC. FRANCHISE AGREEMENT FOR THE STATE OF NORTH DAKOTA**

THIS ADDENDUM is entered into as of ________________, 20____ between PIZZA FACTORY, INC., a California corporation ("Company"), and _____________________, a __________________ ("Franchisee"), with reference to the following:

1. Company and Franchisee have entered into a PIZZA FACTORY, INC. Franchise Agreement dated as of _____________________, 20____, (the "Franchise Agreement").

2. The parties wish to modify the Franchise Agreement, upon the terms and conditions set forth herein.

NOW, THEREFORE, the parties agree to amend the Franchise Agreement as follows:

1. Notwithstanding anything to the contrary set forth in the Franchise Agreement, and in particular Section 8.01, thereof, any general release the Franchisee is required to assent to shall not apply to any liability Company may have under the North Dakota Franchise Investment Law.

2. The following caveat is added to Article 9:

The Securities Commissioner has held the following to be unfair, unjust or inequitable to North Dakota franchisees (Section 51-19-09, N.D.C.C.):

Liquidated Damages and Termination Penalties: Requiring North Dakota Franchisees to consent to liquidated damages or termination penalties

3. The following caveat is added to Section 4.16:

"Covenants not to compete such as those mentioned above are generally considered unenforceable in the State of North Dakota."

4. Notwithstanding anything to the contrary set forth in the Franchise Agreement, and in particular Section 5.02 and Articles 9 and 10 thereof, the Franchise Agreement and the legal relations among the parties to the Franchise Agreement shall be governed by and construed in accordance with the laws of the State of North Dakota.

5. The following caveat is added to Articles 9 and 10 of the Franchise Agreement:

"The Securities Commissioner has held the following to be unfair, unjust or inequitable to North Dakota franchisees (Section 51-19-09, N.D.C.C.):

Restriction on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.

Applicable Laws: Franchise Agreements which specify that they are to be governed by the laws of a state other than North Dakota.

Waiver of Exemplary & Punitive Damages: Requiring North Dakota franchisees to consent to a waiver of exemplary and punitive damages.

Limitation of Claims: Franchise Agreements that require the franchisee to consent to a limitation of claims. The statute of limitations under North Dakota law applies."

6. Section 10.10 of the Franchise Agreement are amended by the addition of the following language to the original language that appears therein:

"The site of the arbitration or mediation will be agreeable to all parties and may not be remote from the franchisee's place of business."

7. Sections 10.02 and 10.10 of the Franchise Agreement are amended by the addition of the following language to the original language that appears therein:

"This section shall not in any way abrogate or reduce any rights of the Franchisee as provided for in the North Dakota Franchise Investment Law, including the right to a trial by jury and the right to submit matters to the jurisdiction of the Courts of North Dakota."

Except as set forth herein, the Franchise Agreement shall be valid and enforceable between the parties in accordance with its terms.

"Company"

**PIZZA FACTORY, INC.** ,
a California corporation

By: ______________________________
Name: ____________________________
Its: _______________________________
Date of signing:____________________

"Franchisee"

______________________________,
[ ] an individual
[ ] a general partnership;
[ ] a limited partnership;
[ ] a limited liability company;
[ ] a corporation;
By: ______________________________
Name: ____________________________
Its: _______________________________
Date of signing:____________________

**ADDENDUM TO PIZZA FACTORY, INC. AREA DEVELOPMENT AGREEMENT FOR THE STATE OF NORTH DAKOTA**

THIS ADDENDUM is entered into as of _______________, 20____ between PIZZA FACTORY, INC., a California corporation ("Company"), and ____________________, a __________________ ("Developer"), with reference to the following:

1. Company and Developer have entered into a PIZZA FACTORY, INC. Area Development Agreement dated as of ____________________, 20____, (the "Area Development Agreement").

2. The parties wish to modify the Area Development Agreement, upon the terms and conditions set forth herein.

NOW, THEREFORE, the parties agree to amend the Area Development Agreement as follows:

1. Notwithstanding anything to the contrary set forth in the Area Development Agreement, and in particular Sections 4.3 and 4.4 thereof, any general release the Developer is required to assent to shall not apply to any liability Company may have under the North Dakota Franchise Investment Law.

2. The following caveat is added to Article 9:

The Securities Commissioner has held the following to be unfair, unjust or inequitable to North Dakota franchisees (Section 51-19-09, N.D.C.C.):

Liquidated Damages and Termination Penalties: Requiring North Dakota franchisees to consent to liquidated damages or termination penalties

3. The following caveat is added to Section 8.2:

"Covenants not to compete such as those mentioned above are generally considered unenforceable in the State of North Dakota."

4. Notwithstanding anything to the contrary set forth in the Area Development Agreement, and in particular Article 11 thereof, the Area Development Agreement and the legal relations among the parties to the Area Development Agreement shall be governed by and construed in accordance with the laws of the State of North Dakota.

5. The following caveat is added to Sections 11.8 and 11.15 of the Area Development Agreement:

"The Securities Commissioner has held the following to be unfair, unjust or inequitable to North Dakota franchisees (Section 51-19-09, N.D.C.C.):

Restriction on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.

Applicable Laws: Area Development Agreements which specify that they are to be governed by the laws of a state other than North Dakota.

Waiver of Exemplary & Punitive Damages: Requiring North Dakota franchisees to consent to a waiver of exemplary and punitive damages.

Limitation of Claims: Area Development Agreements that require the franchisee to consent to a limitation of claims. The statute of limitations under North Dakota law applies."

6. Section 11.15 of the Area Development Agreement is amended by the addition of the following language to the original language that appears therein:

"The site of the arbitration or mediation will be agreeable to all parties and may not be remote from the franchisee's place of business."

7. Section 11.8 of the Area Development Agreement is amended by the addition of the following language to the original language that appears therein:

"This section shall not in any way abrogate or reduce any rights of the Franchisee as provided for in the North Dakota Franchise Investment Law, including the right to a trial by jury and the right to submit matters to the jurisdiction of the Courts of North Dakota."

Except as set forth herein, the Area Development Agreement shall be valid and enforceable between the parties in accordance with its terms.

"Company"

PIZZA FACTORY. INC.
a California corporation

By: ______________________________
Name: ____________________________
Its: ______________________________
Date of signing:____________________

"Developer"

______________________________,
[ ] an individual
[ ] a general partnership;
[ ] a limited partnership;
[ ] a limited liability company;
[ ] a corporation;
By: ______________________________
Name: ____________________________
Its: ______________________________
Date of signing:____________________

**ADDENDUM TO PIZZA FACTORY, INC. DISCLOSURE DOCUMENT FOR THE STATE OF WASHINGTON**

The State of Washington has a statute, RCW 19.100.180 which may supersede the Franchise Agreement in your relationship with us including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with us including the areas of termination and renewal of your franchise.

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the State of Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

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

Any release or waiver of rights executed by you will not include rights under the Washington Franchise Investment Protection Act except if you execute the release or waiver as part of a negotiated settlement after your agreement is in effect and where we are both represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act and/or rights or remedies under the Act, such as a right to a jury trial, may not be enforceable.

We may collect the transfer fees if they reflect our reasonable estimated or actual costs in effecting your transfer.

Each provision of this Addendum to the Disclosure document will be effective only if, with respect to such provision, the jurisdictional requirements of the Washington Franchise Investment Protection Act, Wash. Rev. Code §§ 19.100.180, are met independently without reference to this Addendum to the Disclosure document, and only to the extent such provision is a then valid requirement of the statute.

In August 2019 Washington State Attorney General's Office, Antitrust Division launched an investigation into so-called "no-poach" provisions in franchise agreements. On January 10, 2020, pursuant to RCW 19.86.100, the Attorney General's Office and we entered into an agreement, known as an assurance of discontinuance ("AOD"), whereby we have agreed to no longer include "no-poach" provisions in future franchise agreements and agree to endeavor to remove all "no-poach" provisions from existing agreements for franchises in the State of Washington in order to avoid the initiation of a lawsuit by the Attorney General's Office.

**ADDENDUM TO PIZZA FACTORY, INC. FRANCHISE AGREEMENT FOR THE STATE OF WASHINGTON**

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

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

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

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

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

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

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

[SIGNATURE PAGE FOLLOWS]

The undersigned does hereby acknowledge receipt of this addendum.

| | |
|---|---|
| "Company" | "Franchisee" |
| **PIZZA FACTORY, INC.**<br>a California corporation | ______________________________,<br>[ ] an individual<br>[ ] a general partnership;<br>[ ] a limited partnership;<br>[ ] a limited liability company;<br>[ ] a corporation; |
| By: ________________________________<br>Name: ______________________________<br>Its: _________________________________<br>Date of signing:_______________________ | By: ________________________________<br>Name: ______________________________<br>Its: _________________________________<br>Date of signing:_________________ |

**ADDENDUM TO PIZZA FACTORY, INC. AREA DEVELOPMENT AGREEMENT FOR THE STATE OF WASHINGTON**

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

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

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

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

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

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

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

[SIGNATURE PAGE FOLLOWS]

The undersigned does hereby acknowledge receipt of this addendum.

| "Company" | "Franchisee" |
|---|---|
| **PIZZA FACTORY, INC.**; | ________________________________, |
| a California corporation | [ ] an individual |
| | [ ] a general partnership; |
| | [ ] a limited partnership; |
| By: ___________________________________ | [ ] a limited liability company; |
| Name: _________________________________ | [ ] a corporation; |
| Its: ___________________________________ | By: ___________________________________ |
| Date of signing:_________________________ | Name: _________________________________ |
| | Its: ___________________________________ |
| | Date of signing:__________________ |

## State Effective Dates

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

| State | Effective Date |
|---|---|
| California | June 20, 2020 as amended _______________ |
| Hawaii | See Separate FDD |
| Illinois | Not Registered |
| Indiana | Not Registered |
| Maryland | Not Registered |
| Michigan | Not Registered |
| Minnesota | Not Registered |
| New York | Not Registered |
| North Dakota | June 3, 2020 as amended ___________ |
| Rhode Island | Not Registered |
| South Dakota | Not Registered |
| Virginia | Not Registered |
| Washington | See Separate FDD |
| Wisconsin | Not Registered |

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

**Exhibit J**
**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 Pizza Factory 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.

Several states, including New York, require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

Several states, including Michigan, require that we give you this disclosure document at least 10 business days before execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Pizza Factory 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 H.

The following is the name, principal business address and telephone number of each franchise seller offering this franchise:

☐ Mary Jane Riva 49430 Road 426, Suite D, Oakhurst, California, 93644 (559) 683-3377
☐ Robert Raymond Riva 49430 Road 426, Suite D, Oakhurst, California, 93644 (559) 683-3377
☐ Steve Gibbs 49430 Road 426, Suite D, Oakhurst, California, 93644 (559) 683-3377
☐ Laura Tanaka 49430 Road 426, Suite D, Oakhurst, California, 93644 (559) 683-3377
☐ See attached list

Date of Issuance: May 18, 2020, as amended November 17, 2020.
See Item 1 for our registered agent authorized to receive service of process.
I have received a disclosure document dated May 18, 2020, as amended November 17, 2020 that included the following Exhibits:

A. Training Checklist
B. Current List of Existing Franchisees
C. Franchisor's Audited Balance Sheet and Profit And Loss Statements
D. Franchise Agreement and Exhibits.
E. Area Development Agreement
F. Pizza Factory Sample Menu
G. Pizza Factory Manual of Standard Operating Procedures (Table of Contents Only)
H. List of State Administrators and Agents For Service of Process
I. State Addenda

Date:____________________

Prospective Franchisee:______________________________
By:_____________________________________________
Name:___________________________________________
Individually and on behalf of the following entity:
Company Name:____________________________________
Title:____________________________________________

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Date:____________________

Prospective Franchisee:______________________________
By:______________________________
Name:______________________________
Individually and on behalf of the following entity:
Company Name:______________________________
Title:______________________________