# FRANCHISE DISCLOSURE DOCUMENT

**Pizza Guys Franchises, Inc.**
**a California corporation**
**2731 Citrus Road, Ste. A-1**
**Rancho Cordova, California 95742**
**(916) 852-2222**
www.pizzaguys.com

Pizza Guys Franchises, Inc. franchises others to offer and sell a limited menu of foods, beverages and other merchandise for consumption off premises from takeout and delivery only pizza stores identified by the "*Pizza Guys*" trade name and service mark which are decorated and equipped according to our specifications, and are operated according to our policies and procedures, all of which we have developed and will continue to develop (referred to as the "franchise" or the "franchise system" as the context requires).

The total investment necessary to begin operation of a Pizza Guys franchise is $78,300 to $262,500 with the Store Equipment and Furnishings purchased, or $68,300 to $197,500 with the Store Equipment and Furnishings leased. This includes $25,000 that must be paid to the franchisor or affiliate. The total investment necessary to begin the operation under a multi-Unit Development Agreement, assuming the purchase of 3 to 5 locations, is $108,300 to $322,500 with the Store Equipment and Furnishings purchased, or $98,300 to $257,500 with the Store Equipment and Furnishings leased. This includes $55,000 to $85,000 that must be paid to the franchisor or affiliate. There is no minimum number of Pizza Guys franchises that you are required to develop under a multi-Unit Development Agreement.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact the Pizza Guys Corporate Offices at 2731 Citrus Road, Ste. A-1, Rancho Cordova, California 95742 and (916) 852-2222.

The terms of your contract will govern your franchise relationship. Do not rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or 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 ("FTC"). You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, DC 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: March 30, 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 franchises. You can find their names and contact information in Item 20. |
| **How much will I need to invest?** | Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use. |
| **Does the franchisor have the financial ability to provide support to my business?** | Item 21 or Exhibit 3 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 Guys 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 Guys franchisee?** | Item 20 lists current and former franchisees. You can contact them to ask about their experiences. |
| **What else should I know?** | These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents. |

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

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

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

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

**Operating restrictions**. The franchise agreement may prohibit you from operating 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 4.

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 the following risk(s) be highlighted:

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

***PIZZA GUYS®***

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

The franchisor is Pizza Guys Franchises, Inc., a California corporation incorporated on April 7, 1995, which sells pizza store franchises under the ***"Pizza Guys"*** name. To simplify language in this Disclosure Document, "Pizza Guys Franchises, Inc." will generally be referred to as "us," "we" or "our" and "you" and "your" will mean a person whom we grant a franchise.

The *Pizza Guys*® franchises to be offered in this state consist of a system for serving to the general public, during lunch, dinner and other hours, a limited menu of foods and beverages prepared according to certain recipes, formulas and other procedures, for consumption off premises at takeout and delivery only pizza stores decorated and equipped according to our specifications, and operated under the *"Pizza Guys"* name according to our marketing, business, inventory, accounting, and other policies and procedures, all of which we have developed and will continue to develop (referred to as the "franchise" or the "franchise system" as the context requires).

If you sign a Multi-Unit Development Agreement ("MUDA") (attached as Exhibit 2 to this disclosure document), you will develop multiple *Pizza Guys*® franchises on an agreed-upon schedule. Franchisees who sign a MUDA must agree to develop and operate a minimum of two outlets. There is no maximum number of outlets that may be opened under a MUDA. At the time you sign the MUDA, you will also sign the franchise agreement for your first *Pizza Guys*® location. Before opening each subsequent location, you will sign our then-current franchise agreement. For future unit franchisees, an area developer may be required to sign a franchise agreement in a form that differs from the form of franchise agreement in this offering.

We have offered *Pizza Guys*® franchises since April 1995. We have never offered franchises in another line of business. We do not operate any *Pizza Guys*® stores our self. Our principal business address is 2731 Citrus Road, Ste. A-1, Rancho Cordova, California 95742, which is also the address of our agent for service of process, Shahpour M. Nejad. We have no affiliates that offer franchises in any line of business or provide products or services to our franchisees. We have one affiliate, RSM, Inc., a California corporation, owned by our principals, formed on January 27, 1995 which operates *Pizza Guys*® stores. Since 1995, RSM has owned and operated *Pizza Guys*® stores in the Sacramento, California area, and maintains its principal place of business at 2731 Citrus Road, Ste. A-2, Rancho Cordova, CA 95742. RSM has never conducted business in any other line of business nor has it offered franchises in this or any other lines of business. RSM does not provide you with products or services.

The pizza market is a highly competitive and developed market with low profit margins requiring a high volume of sales to be profitable. Additionally, the market is dominated by large nationally based companies such as *Papa Johns®, Dominoes®, Godfather's®, Pizza Hut®, Round Table®,* and *Little Caesars*® with much greater capital resources than us and a multitude of small chain or single restaurant stores. There may be other risks concerning this franchise.

There are state and local laws, regulations and ordinances applicable to the operation and management of a restaurant. You should consider these and other applicable laws and regulations when evaluating your purchase of a franchise. Under the Franchise Agreement, you are responsible for understanding and complying with the particular laws of your state as they pertain to a restaurant business and general businesses. We advise that you consult with an attorney to ensure compliance with all relevant laws.

Your *Pizza Guys*® store will be subject to laws and regulations in your state, county, or municipality regarding the operation of a restaurant, including laws and regulations relating to the

preparation and dispensation of food products, occupational hazards and health laws, sanitation laws, and consumer protection laws.

You will also be subject to laws or regulations that are not specific to the restaurant industry, but applicable to businesses in general, including zoning laws, labor laws and the Fair Labor Standards Act, workers' compensation laws, business licensing laws, tax regulations, and the Americans with Disabilities Act.

We have not investigated the laws or regulations applicable to your *Pizza Guys*® store. You are responsible for investigating all applicable federal, state, and local laws and regulations, and your cost to comply with such laws and regulations, and you should do so before purchasing a franchise from us. We strongly suggest that you consult with an attorney, consultant and/or financial advisor regarding such regulations prior to purchasing a franchise from us. Applicable laws and regulations are subject to change.

Federal, state and local jurisdictions have enacted laws, rules, regulations and ordinances that may apply to the operation of your *Pizza Guys*® store, including those that (i) establish general standards, specifications and requirements for the construction, design and maintenance of restaurant premises; (ii) regulate matters affecting the health, safety and welfare of your customers, such as general health and sanitation requirements for restaurants; employee practices concerning the storage, handling, cooking and preparation of food and beverages; restrictions on smoking; availability of and requirements for public accommodations, including restrooms; (iii) set standards pertaining to employee health and safety; (iv) set standards and requirements for fire safety and general emergency preparedness; (v) govern the use of vending machines; (vi) control the sale of alcoholic beverages; and (vii) regulate the proper use, storage and disposal of waste, insecticides, and other hazardous materials. You should investigate whether there are regulations and requirements that may apply in the geographic area in which you are interested in locating your *Pizza Guys*® store and should consider both their effect and cost of compliance.

In addition, you must comply with all local, state, and federal laws that apply to your *Pizza Guys*® store including health, sanitation, no smoking, EEOC, OSHA, discrimination, employment, and sexual harassment laws, including all requirements set forth in the Alcoholic Beverage Control Act and in the California Code of Regulations, Title 4 with regard to the sale of alcoholic beverages. The Americans with Disability Act of 1990 requires readily accessible accommodation for disabled people and therefore may affect your building construction, site elements, entrance ramps, doors, seating, bathrooms, etc. You must obtain all required real estate permits, licenses and operational licenses. You must also comply with all menu and menu board labeling laws and rules requiring restaurant operators to disclose certain calorie or other nutritional information about the foods they sell, including, for example, the FDA's Nutrition Labeling of Standard Menu Items in Restaurants and Similar Food Establishments Rule. California law requires each food facility that meets specified criteria (which cover franchised outlets with at least 19 other franchised outlets with the same name among certain other food facilities) to provide nutritional information that includes, per standard menu item, the total number of calories, grams of saturated fat, grams of trans fat, and milligrams of sodium and to have menu boards to include the total number of calories. In California, local county health departments inspect restaurants and other retail food facilities to ensure compliance with safe food handling practices and adequacy of kitchen facilities. Other states and cities may have laws similar to these California laws.

The Nutrition Labeling and Education Act (NLEA) sets regulations for food labeling, including nutritional label standards, nutrient content claims, and health claims. NLEA applies to virtually all foods in the food supply, including food served and sold in restaurants. While NLEA specifies a number of exemptions for restaurants, there are many instances where a nutritional label

is required. The Food and Drug Administration's Nutritional Labeling Guide for Restaurants and Other Retail Establishments provides answers to commonly asked questions regarding the application of NLEA. The Health Care Reform Bills that became law in March 2010 additionally contain provisions that require disclosure of nutrition and calorie information in chains of more than 20 restaurants.

Additionally, you and every employee of your *Pizza Guys*® store(s) must comply with and follow any and all polices we and/or the federal government and you state and local government put into place regarding the cleanliness and sanitation of your *Pizza Guys*® store(s) and the health and safety of your employees and customers. If you fail to follow any or all of these policies, you will be in default of your Franchise Agreement and you will have thirty (30) days to cure such default. If the default is not cured after thirty (30) days, we reserve the right to terminate your Franchise Agreement.

ITEM 2. BUSINESS EXPERIENCE

*President*
*Member, Board of Directors:* Shahpour M. Nejad

From April 1995 to the present, Shahpour M. Nejad has been President and a member of Pizza Guys Franchises, Inc. and a member of Pizza Guys Franchises, Inc. 2-person Board of Directors. Mr. Nejad has also served as Chief Operating Officer and Director of Advertising for Pizza Guys Franchises, Inc. since April 1995 to the present.

*Chief Financial Officer, Secretary*
*Member, Board of Directors:* Reza Kalantari

From April 1995 to the present, Reza Kalantari has been Chief Financial Officer and a member of Pizza Guys Franchises, Inc. 2-person Board of Directors. In early 1998, Mr. Kalantari also became our Secretary.

*VP of Operations:* Michael J. Morgan

From March 2007 to the present, Michael J. Morgan has been VP of Operations.

ITEM 3. LITIGATION

No litigation is required to be disclosed in this Item,

ITEM 4. BANKRUPTCY

No bankruptcies are required to be disclosed in this Item.

ITEM 5. INITIAL FEES

Initial Franchise Fee: If we grant you a Franchise Agreement you must pay us an Initial Franchise Fee of $25,000. The Initial Franchise Fee is uniform and non-refundable, and you are not entitled to interest thereon.

However, you must execute the Franchise Agreement prior to looking for a site or beginning training. Your signing of the Franchise Agreement constitutes your offer to purchase a franchise and operate a Pizza Guys store at the premises approved by us in accordance with the terms of the Franchise Agreement. If you fail to find an approved location within nine months after you sign your

Franchise Agreement, we can terminate your Franchise Agreement.

Pizza Guys may offer to waive the Weekly Franchise Fee for a period of up to six (6) months to you if you open a new location. The Weekly Franchise Fee is waived on the new location not your existing location. Such arrangements are negotiated on a case by case basis depending in part on the condition, type and status of your existing operation.

Multi-Unit Development Agreement. If you sign a Multi-Unit Development Agreement, you will pay us an Initial Franchise Fee of $25,000 for the first *Pizza Guys*® store along with a franchise fee of $15,000 for each additional *Pizza Guys*® store you agree to open and operate (the "Development Fee"). The Development Fee will be due at the time you sign the MUDA. The Development Fee is fully earned by us upon receipt and is not refundable under any circumstances. The Development Fee is calculated uniformly for all Multi-Unit Operators. You must sign the Franchise Agreement for the first Franchised Business at the same time you sign the Multi-Unit Development Agreement. The entire Development Fee is payable in full at the time you sign the Multi-Unit Development Agreement. In 2019, we did not collect any Development Fees.

Notice of Negotiated Sales: *For California Residents only.* The California Franchise Investment Law requires that we notify California residents of items of this Disclosure Document which we have negotiated with other franchisees. There have been no Notices of Negotiated Sales filed in California in the last twelve months. Except as set forth herein and in any Notice of Negotiated Sales which may be included as an *Appendix* to this Disclosure Document, an identical Initial Franchise Fee and an identical Initial Advertising Fee will or will not be charged in connection with each type of franchise offered and sold pursuant to this franchise Disclosure Document. Our affiliate, RSM, Inc., builds *Pizza Guys*® stores and sells them to our franchisees as "turnkey" *Pizza Guys*® operations. RSM, Inc. does not pay us an Initial Franchise Fee or Weekly Franchise Fees, however, buyers of a turnkey store from RSM, Inc. pays us an Initial Franchise Fee, Initial and Weekly Franchise Fees.

ITEM 6. OTHER FEES

| **Type of Fee**[1] | **Amount** | **Due Date**[14] | **Remarks** |
|---|---|---|---|
| Weekly Franchise Fee[2] | 5% of Gross Sales[15] | Wednesday each week[16] | See footnotes |
| Minimum Monthly Advertising Expenditure[3] | Variable cumulative percentage of net sales, or $5,500, whichever is less | As it becomes due | See footnote |
| Telephone Number Lease[4] | Deposit Reimbursement of actual costs | As Incurred | See footnote |
| Additional Training[5] | Actual cost of travel, meals and lodging plus $100 per day | Upon your request for additional training | See footnote |
| Retraining[6] | Actual cost of travel, meals and lodging plus $250 per day | As we determine | See footnote |

| | | | |
|---|---|---|---|
| Transfer Fee[7] | $5,000 or ½ of then current Initial Franchise Fee | After our approval of your proposed buyer(s) | See footnote |
| Renewal/Extension Fee[8] | ½ of the then-current initial franchise fee | At least 180 days prior to expiration of term | See footnote |
| Inspection & Audits[9] | Cost of inspection and audit | If audit reveals understatement of 2% or more | See footnote |
| Proof Of Compliance[10] | Actual cost of travel, meals and lodging plus $250 | Upon Reinspection | See footnote |
| Maintenance And Refurbishing Of Store | You must reimburse our expenses | As incurred | If you do not undertake efforts to correct deficiencies in your Store's appearance promptly after we notify you of the deficiencies, then we can undertake the repairs and you must reimburse our costs. |
| Late Charges[11] | $35 per occurrence | From the date originally due until paid | See footnote |
| Interest[12] | 18% per annum or the maximum legal rate whichever is lower | From the date originally due until paid | See footnote |
| Loyalty Card Program[13] | Our then current program fee, plus percentage for sales dollar | Monthly | You will pay these fees to us |
| Social media management, website hosting, email hosting, etc.[17] | Our then current fee | Monthly | You will pay these fees to us |

FOOTNOTES:

1 All fees are not imposed, collectible or payable to us. Of the fees which are payable to us, none are refundable.

2 Weekly Franchise Fee: The Weekly Franchise Fee for the *Franchise Agreement* is 5% of Gross Sales for each week of the franchise term and any renewal/extension term, due on the Wednesday of each week for the preceding week immediately ended. See *Franchise*

*Agreement, section 6.01(b) and 6.10.*

3 Minimum Monthly Advertising Expenditure: You are required to spend on advertising a minimum of 7% of net sales or $5,500, whichever is less.

Advertising expenses are paid to third parties not to us. Proof of your Minimum Monthly Advertising Expenditure must be submitted with your Monthly Advertising Report (see Section 6.05(b)). We retain the right to unilaterally increase the Minimum Monthly Advertising Expenditure in the event that, in our sole opinion, an increase is required to be competitive in the market.
We will provide an approved format for you to promote your ***Pizza Guys***@ store, however, we have not established an advertising fund and we are not required to advertise or otherwise increase recognition of and goodwill toward the *Pizza Guys*® chain. For the first six (6) months your store is open, we will plan the advertising of your store. You may find it advisable to expend up to $7,500 each month for the first six (6) months your store is open to advertise the opening of your store. *See Franchise Agreement, Articles 5 and 6.*

In the Sacramento, California area a *Pizza Guys*® advertising cooperative exists which determines what advertisements are placed on the basis of one- store-one-vote. Our affiliate, RSM, Inc., operates the majority of the *Pizza Guys*® stores in the Sacramento area and, accordingly, controls what advertisements are placed in the Sacramento area.

When two or more franchised businesses have been established in a Metropolitan Statistical Area (MSA), we may establish an advertising cooperative in that area. If an advertising cooperative has been established in your territory, you are required to participate in the cooperative advertising group. If the group approves by majority an advertising program you must pay for your share of the expense. (Franchise Agreement, Article 5.) Although we may not have an advertising cooperative in your area, we may, from time to time, require that you join a specific advertising campaign and we will electronically withdrawal money from your account for the campaign. (Franchise Agreement, Article 5, and Exhibit 4.)

4 Telephone Number Lease: You shall enter into a Telephone Number Lease with us which provides that you will lease the telephone numbers for your store from us including but not limited to the "main telephone number." We will retain ownership of the leased telephone numbers, and the main telephone number shall be restricted to receive calls only (or, if such feature is unavailable, to receive calls but restricted to place local calls only). The main telephone number shall be the one (1) and only telephone number used to advertise the store. You may install additional telephone number(s) to place and receive local and long distance calls but you may not use such telephone number(s) to advertise the store. You may not advertise materials with your phone number outside of your 2-mile radius. We have the absolute right to select and change, at any time, the telephone company which will provide the main telephone number to the premises. You may use the leased telephone numbers so long as you are not in default of this Lease, the ***Pizza Guys***® *Franchise Agreement* or any other agreement between you and us or our affiliates, if any. Upon your default you forfeit your right to use the leased telephone numbers including, but not limited to the main telephone number, and you hereby specifically and irrevocably authorize us to terminate the leased telephone numbers or to redirect the calls received by the leased telephone numbers to another location from which we or another franchisee may serve your customers. You shall also pay the telephone company and/or vendor(s), as directed, according to the terms of our *Telephone Number Lease*. See *Items 6 and 10*, herein, see *Franchise Agreement*, sections 2.04, 10.02(1,) and 13.01(a) and the *Telephone Number Lease* attached hereto as *Exhibit 6*.

5 Additional Training: If you believe that our Initial Training Program is not adequate for you or for the particular circumstances of your store, additional training to be conducted by our representative at your store may be purchased from us for the actual cost of travel, meals and lodging plus $100 per day. Pursuant to your Franchise Agreement, you are required to train your employees/managers. If you want your employees/managers trained by us, we will do so for the actual cost of travel, meals and lodging plus $250 per day. *See Franchise Agreement, section 3.01.*

6 Retraining: If we determine that you are not operating your store in compliance with our Store Operations Manual, we, in our sole discretion, have the right to make you go through Phase I training again, and will do so for the actual cost of travel, meals and lodging plus $250 per day. *See Franchise Agreement, section 4.01(o)*.

7 Transfer Fee: To voluntarily transfer the franchise, you must pay us a Transfer Fee of $5,000 if the proposed buyer is an existing franchisee of the franchise system, or one-half of the then current Initial Franchise Fee for *Franchise Agreements* or $12,500 in the event we are not then granting new franchises if the proposed buyer is new to the franchise system. The Transfer Fee is due after our approval of your proposed buyer(s) but is nonrefundable even if for any reason, the proposed transfer does not occur. See *Item 17,* below, and see *Franchise Agreement, Article 14.*

8 Renewal/Extension Fee: To renew (or extend) the franchise term you must pay us a renewal fee equal to 50% of the then-current initial franchise fee (or in the event we are not then granting new franchises, an extension fee of $12,500). The Renewal/Extension Fee applies *only* to Franchise Agreements and is due upon your request to renew or extend. See *Item 17,* below, and see *Franchise Agreement, section 12.02(a).*

9 Inspection and Audit: You must permit us, our representatives, accountants, attorneys and other agents to inspect and audit your books and records without notice during regular business hours. This authorization is continuing and irrevocable. If an inspection or audit discloses that actual Gross Sales exceed your reported Gross Sales, you must pay us: (a) the additional amounts owed, (b) interest on said amounts from the date originally due until paid, and (c) if actual Gross Sales exceed your reported Gross Sales by 2% or more, the cost of the inspections and audits which revealed the under-reported sales including, but not limited to, our agents' fees, travel, meals and lodging. See *Franchise Agreement, section 6.07.*

10 Proof of Compliance: You shall permit us, our representatives, accountants, attorneys and other agents to inspect your store premises at any time during regular business hours, without notice, and to observe all aspects of the business and you shall furnish us with such evidence as we may request from time to time for the purpose of determining your compliance with the franchise system. If we determine that you are not in compliance with the franchise system, we will provide you with written notice thereof and you will have thirty (30) days to provide evidence of compliance. Upon reinspection, if needed, you agree to pay us for such reinspection at the rate of $250 per day plus actual cost of travel, meals and lodging.

11 Late Charges: Under the *Franchise Agreement,* you must pay us a late charge of $35 per occurrence on any amount not paid when due, however, the payment of such interest will not be deemed to authorize any delay in payment of any amount. See *Franchise Agreement, section 6.04,* attached hereto as *Exhibit 1.* This late charge may be considered a liquidated damage. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

12 Interest: Under the *Franchise Agreement,* any amount not paid when due will bear interest at the rate of 18% per annum or the maximum legal rate in the jurisdiction in which the store is located, whichever is lower, from the date due until paid, however, the payment of such interest will not be deemed to authorize any delay in payment of any amount. See *Franchise Agreement, section 6.04,* attached hereto as *Exhibit 1.* This interest charge may be considered a liquidated damage. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

13 Loyalty Program: You must participate in our Customer Loyalty Card programs when established. Loyalty Cards will be available for use and redemption at any location.

14 Preauthorized Bank Deduction Procedure: All fees may be collected by us from you will be collected by way of a preauthorized bank deduction procedure. Upon signing the *Franchise Agreement* and from time to time as requested by us, you must sign all documents necessary to establish and maintain a preauthorized bank deduction procedure whereby your bank is authorized to pay your Weekly Franchise Fee and any other payment (such as *Telephone Number Lease* rent and advertising campaigns as may be required by us) including electronically deducting any default payments. You shall maintain sufficient funds in the account to assure the timely preauthorized transfer of the appropriate funds and you shall pay to us a reasonable service fee, not less than $25, and all bank charges in the event that sufficient funds are not available to honor such deduction. You must not cancel the preauthorized bank deduction procedure and you must require your bank to provide written notice 30 days in advance of any change to your account which would affect it. You release, indemnify and agree to defend your bank from and against any obligation, loss, liability or damage caused by, or related to, payments pursuant to the preauthorized bank deduction procedure. See *Franchise Agreement, section 6.03* and see the *Preauthorized Bank Deduction Procedure* attached hereto as Exhibit 5.

15 "Gross Sales" means all revenue and other compensation, including catering and delivery, derived from your business exclusive *of:* 1) sales taxes actually paid by you to governmental authorities and 2) authorized "complimentary items" as defined in the *Store Operations Manual* from time to time. Sales for checks or credit shall be treated as occurring for the full price in the week during which the sale is made irrespective of the time when you actually receive payment (whether full or partial) therefor. See *Franchise Agreement, section 6.10.*

16 "Week" means a period of 7 days as designated by the calendar, but beginning on Monday and ending on Sunday for fee payments and financial reports. See *Franchise Agreement, section 6.09.*

17 Social media management, website hosting, email hosting, etc. We, or an affiliate of ours, will manage your social media accounts, websites, and provide you with email hosting. You are required to pay our then-current fee each month for these services.

## ITEM 7. ESTIMATED INITIAL INVESTMENT

**YOUR ESTIMATED INITIAL INVESTMENT**

**A. Franchise Agreement**

| TYPE OF EXPENDITURE | AMOUNT | METHOD OF PAYMENT | WHEN DUE | TO WHOM PAYMENT IS TO BE MADE |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Initial Franchise Fee[1] | $25,000 | Lump sum | Upon signing Franchise Agreement | Franchisor |
| Initial Advertising Fee[2] | $500 - $7,500 | As incurred | Within first month of opening | Third party |
| Grand Opening Ceremony Day[3] | $6,000 | As incurred | Prior to opening | Franchisor |
| Store Premises Lease[4] Advance Rent & Deposit | $2,000 - $6,000 | Lump sum | Upon signing Lease Agreement | Franchisor or lessor |
| Leasehold Improvements[5] | $15,000 - $120,000 | As incurred | Prior to opening | Third party |
| Equipment & Furnishings[6] | $10,000 - $65,000 | As incurred | Prior to opening | Third party |
| Construction Project Manager Fees[7] | $ 1,000 - $ 3,500 | As incurred | Prior to opening | Third party |
| Signage[8] | $1,500 - $8,400 | As incurred | Prior to opening | Third party |
| Insurance[9] | $1,800 - $2,600 | Lump sum | Prior to opening | Third party |
| Miscellaneous Opening Costs[10] | $3,000 - $6,000 | As incurred | Prior to opening | Third party |
| Opening Inventory[11] | $2,500 - $2,500 | Lump sum | Prior to opening | Third party |
| Additional Funds – 3 Months[12] | $10,000 | As incurred | After opening | Employees, suppliers, utilities |
| **Total (with the Store Equipment and Furnishings Purchased)** | **$78,300 - $262,500** | | | |
| **Total (with the Store Equipment and Furnishings Leased[13])** | **$68,300 - $197,500** | | | |

THERE ARE NO OTHER DIRECT OR INDIRECT INITIAL PAYMENTS TO PIZZA GUYS IN CONJUNCTION WITH THE FRANCHISE UNDER A FRANCHISE AGREEMENT. NONE OF THESE FEES OR EXPENDITURES ARE REFUNDABLE UNDER ANY CIRCUMSTANCES.

## YOUR ESTIMATED INITIAL INVESTMENT

### B. Multi-Unit Development Agreement

| TYPE OF EXPENDITURE[14] | AMOUNT | METHOD OF PAYMENT | WHEN DUE | TO WHOM PAYMENT IS TO BE MADE |
|---|---|---|---|---|
| Development Fee (3 to 5 Locations)[15] | $55,000 - $85,000 | Lump sum | Upon signing the MUDA | Franchisor |
| Initial Investment to Open Initial Location[16] | $53,300 - $237,500 | See Table A of this Item 7. | | |
| **Total (with the Store Equipment and Furnishings Purchased)** | **$108,300 - $322,500** | | | |
| **Total (with the Store Equipment and Furnishings Leased[13])** | **$98,300 - $257,500** | | | |

NONE OF THESE FEES OR EXPENDITURES ARE REFUNDABLE UNDER ANY CIRCUMSTANCES.

FOOTNOTES:

1 Initial Franchise Fee: See Item 5, and see Franchise Agreement, section 6.01(a).

2 Initial Advertising Fee: You may find it advisable to expend up to $7,500 each month for the first six (6) months your store is open to advertise the opening of your store.

3 Grand Opening Ceremony Day: We estimate that your opening day ceremony costs will be approximately $6,000. Opening day elements include: franchise company store managers to cover staffing and experience gaps, sign dancer, DJ, prize booth operator, free box kits, 500 free large pizza give away. Franchisor will provide project management of grand opening ceremony, coordination of Chamber of Commerce ribbon cutting, pre-opening audit, box distribution coordination (including vehicles for distribution), on-site senior management, balloons, use of prize tent, prize wheel and signage, and event day store management by senior corporate management. While you are not required to have a grand opening ceremony, it is recommended.

4 Store Premises Lease Advance Rent & Deposit: Upon signing the lease for the store premises, you must pay the third party lessor the first month's rent and a security deposit (and any other payment required by the lessor). The first month's rent and security deposit will vary depending upon the amount of the monthly rent. The monthly rent will vary from store to store depending upon a number of factors including, but not limited to: the location and size of the store premises, the length of the store premises lease, the extent of leasehold improvements needed, whether the cost of leasehold improvements are included in the rent, and the amount of the first month's rent and security deposit. Depending upon the desirability of the location, the current monthly rental rates for store premises suitable for Pizza Guys® takeout and delivery only stores in the greater Sacramento, California area range from approximately $1.50 per square foot to $ 3.50 per square foot per month, plus common area maintenance ("CAM") charges where applicable. Pizza Guys®. stores generally operate in

approximately 1000 to 1500 square foot premises in retail areas. We estimate that monthly CAM charges in the Northern California area for a typical 1,200 square foot Pizza Guys®. store will range from $315 to $800. Based on recent trends, you should anticipate a rent increase of 3% to 7% per year. [Note: The foregoing information is derived from our experience in the Northern California area. Rental rates in other areas may be greater or less.) See note 5 of Item 6 of this Disclosure Document and see Franchise Agreement, sections 6.02 and 2.01 attached to this Franchise Disclosure Document as Exhibit 1.

5 Leasehold Improvements: If you sign a Franchise Agreement, it is likely that the store premises will need to be improved in order to make the premises suitable for use as a Pizza Guys® store (commonly referred to as "leasehold" or "tenant" "improvements"). The cost of such leasehold improvements will vary with the size and location of the store premises and the extent of the improvements required. In some instances, the store premises will already have been improved for use as a store, thereby potentially decreasing the extent of improvements necessary for use as a Pizza Guys® store, resulting in cost savings to you. In other cases (such as premises which have never before been occupied), extensive leasehold improvements will be necessary in order to make the premises suitable for use as a Pizza Guys® store, thereby significantly increasing your costs beyond those estimated here. We estimate that leasehold improvements will cost from $15,000 to $120,000, depending upon the size of the premises and whether or not the premises have been previously used as a store. See note 6 of Item 6 of this franchise Disclosure Document.

6 Equipment and Furnishings: If you sign a Franchise Agreement, you must fixture, furnish, equip and decorate the store in accordance with our standards and specifications as revised from time to time. You must have a conveyor oven, hood and ventilation system, mixer, pizza preparation table, cut table, vegetable dicer and slicer, dough sheeter, freezer, safe, walk-in refrigerator, dry storage shelving, pizza warmer holding cabinet, counter tops, cabinetry, a working facsimile machine at all times, telephone (including message on hold system) and a computer utilizing POS System which must be approved by Franchisor, high speed internet connection, as well as other equipment and furnishings on the store premises in order to operate the premises as a Pizza Guys® store. You are required to notify us prior to changing your internet provider. The required equipment and furnishings may be purchased outright, or may be leased, or leased and acquired through a lease/purchase agreement from a variety of sources with costs varying according to the size of the store and the specific features of the equipment and furnishings selected. See item 11.

We estimate that the cost to purchase the required equipment and furnishings outright will range from $10,000 to $65,000 depending upon whether or not you choose new or reconditioned equipment or equipment with basic features or more sophisticated equipment including automatic and electronic features. You will contract directly and make all financial and credit arrangements with the seller or lessor of the equipment and furnishings. All equipment and furnishings must meet our standards and specifications and be purchased from an approved supplier. We may, but are not obligated to, sell or lease the equipment and furnishings to you.

7 Construction Project Manager Fees: You are required to use a construction coordinator approved by us.

8 Signage: If you sign a Franchise Agreement you must install approved signage on your store premises. We estimate that the store signage or awning will cost from $1,500 to $8,400 depending upon the size and location of the premises and the number of streets or walkways on which the store premises front. You will contract directly and make all financial and credit arrangements with the signage provider. All Signage must meet our standards and specifications and be purchased from a designated or approved supplier. We may, but are not obligated to, lease or sell the signage to you. Notwithstanding this paragraph or any provision of the Franchise Agreement, the signage shall

immediately belong to Franchisor.

9 Insurance Coverage: You are required to have Worker's or Workmen's Compensation Insurance as prescribed by law in the state in which the store is located; Comprehensive General Liability Insurance (including products liability coverage, excess and non-owned driver liability and a broad form advertising injury endorsement) with a $1,000,000 combined single limit for Bodily Injury and Property Damage per occurrence; any additional insurance required by the store premises lease; and any additional insurance required by any equipment lease. A $2,000,000 umbrella policy is recommended but not required. See Franchise Agreement, section 9.02. Although the expense of such coverage will vary from state to state and region to region, we estimate that you will expend approximately $14,000 per year to maintain such coverage. Payments are made monthly. Only two months' payments (e.g., $1,800 to $2,600) must be paid initially. We recommend that you take out an Employment Practices Liability Insurance policy which covers potential claims made by your employees for: wrongful refusal to employ a qualified applicant for employment; wrongful failure to promote, or wrongful deprivation of career opportunity; wrongful demotion, negligent evaluation, negligent reassignment or wrongful discipline; wrongful termination; employment related misrepresentation; harassment, coercion, discrimination; or oral or written publication or material that slanders, defames or libels or violates or invades a right of privacy.

10 Miscellaneous Costs: You are required to have on hand sufficient funds to meet miscellaneous expenses including, but not limited to, the payment of telephone and utilities deposits, health department licensing fees, initial sales tax deposit, small equipment and other isolated or recurring charges. The total amount of funds necessary will vary from store to store depending upon a number of factors including, but not limited to, location and size of the store and the number of persons employed. We estimate that miscellaneous costs will range from $3,000 to $6,000.

Security deposits, utility deposits, sales tax deposits, business licenses, and other prepaid expenses are included under miscellaneous costs. The advance rent and deposit for the store premises lease are discussed in detail in Items 6 and 7, above. If you have previously established business credit, then security deposits will fall within the aforementioned range for miscellaneous costs. However, if you have not previously established business credit, your required deposits will exceed that amount.

Additionally, in the event that you lease the store equipment and furnishings, you will generally be required to pay the equipment lessor advance rent and/or a security deposit of $5,000 to $10,000 (i.e., 10% to 20% of the lessor's purchase price for the equipment, varying with the quality of your credit). You should also expect to pay for other miscellaneous leased equipment.

Municipal Sewer Hook-up Fees: It has come to our attention that some municipalities have begun charging a substantial fee for the first time a building is connected to the municipal sewer system. The fee, if charged, can range from $3,000 to $20,000. Whether or not a sewer hook-up fee is charged and the amount of the fee is totally dependent upon the local ordinances of the county, city or other municipality having jurisdiction over the proposed store premises. It is your responsibility to ascertain and to inform us of what fees will be charged by the local jurisdiction. The sewer hookup fee is not included in our estimate of miscellaneous costs for the following reasons: since the sewer hook-up remains a permanent part of the building, if negotiated prior to signing the lease, the lessor will sometimes pay the fee; also, in our experience, where the fee is charged, it is either less or normally not charged in the case of buildings which have previously been occupied as a store. Accordingly, in communities where such fees are charged, you should consider leasing a previously occupied building instead of a new building.

11 Opening Inventory: Prior to opening, you are required to purchase and have on hand such foods, beverages, pizza containers, cups, paper goods and other inventory as we specify ("opening

inventory"). We estimate that the opening inventory will cost approximately $2,500 depending upon the store's anticipated initial sales.

12 Additional Funds - 3 Month's Estimate: We estimate that $10,000 will be necessary to operate the store for 3 months after opening.

13 Store Equipment and Furnishings Leased: Should you lease the equipment and furnishings, you will incur a lease payment which is unknown to us but the amount of your payment will depend on your credit worthiness and lease terms negotiated.

14 This Table B details the estimated initial investment associated with executing a MUDA for the right to own and operate 3 to 5 locations, as well as the initial investment to open your first location under your Development Schedule.

15 This figure represents the Development Fee for the purchase of 3 to 5 locations under the MUDA.

16 This figure represents the total estimated initial investment required to open the initial location you agreed to open and operate under the MUDA. You will be required to enter into our then-current form of franchise agreement for the initial location you open under your MUDA. The range includes all the items outlined in Table A of this Item 7, except for the Initial Franchise Fee because they are reflected in the Development Fee. It does not include any of the costs you will incur in opening any additional location(s) that you are granted the right to open and operate under your MUDA.

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

We may, from time to time, require you to purchase or lease: (1) certain goods, services, inventory, supplies, fixtures, equipment, furnishings, and real estate only from a designated source or sources; (2) some items only from among a list of approved suppliers; and (3) other items from any supplier so long as the items meet our standards and specifications as revised from time to time.

For instance, we require you to lease the store's telephone numbers from us. We will not derive income from your telephone number lease since, according to the terms of the Telephone Number Lease, you do not pay us but rather pay the telephone company and/or vendor(s) directly for the actual charges associated with installing and maintaining the leased telephone numbers. See Item 5, 6 and 7 of this Disclosure Document and see Franchise Agreement, sections 2.04 and 10.02(b) and see Telephone Number Lease attached hereto respectively as Exhibits 1 and 6. No purchasing or distribution cooperatives exist, however, we may, but are not obligated to, establish a commissary or central kitchen which will be an approved supplier or the sole designated source for some or all of the food, beverages and other inventory purchased by you. In such event, we will derive income therefrom.

Additional specific purchasing or leasing requirements for certain goods, inventory, supplies, fixtures, equipment, furnishings, and store real estate are set forth in the Store Operations Manual and may be revised from time to time. See Franchise Agreement, Articles 2 and 4.

If you have a Franchise Agreement, we estimate that you will be required to purchase or lease approximately 50% to 90% of the goods or services necessary to establish your store from us or approved suppliers or sources designated by us and that you will be required to purchase or lease approximately 50% to 90% of the goods or services necessary to operate your store from us or

approved suppliers or sources designated by us. We reserve the right to designate ourselves as an approved supplier or as the sole designated source for such items.

We approve suppliers based on their: (1) ability to provide the goods or services in accordance with our standards and specifications including, but not limited to, producing our private brand label products, if any; (2) willingness to protect our proprietary information and trade secrets from disclosure and misappropriation; (3) production and delivery capabilities; (4) integrity to assure that association with the supplier will not bring ill will upon us; and (5) the financial solvency of the supplier. Failure to maintain our standards and specifications may result in the termination of a supplier's approved status and we reserve the right to revoke the approval of a supplier at any time. If you desire to use a particular supplier who has not been approved by us, you may request us to consider adding the supplier to the list of approved suppliers.

Advertisers, suppliers, including food and beverage suppliers, and other product and service providers provide monetary or in-kind "rebates" to franchisors who designate them as a sole source supplier or who recommend or approve them as an authorized supplier. You agree that we have the right to receive and expend such rebates in any manner that we, in our sole and absolute discretion, desire. See Franchise Agreement, section 6.08. We reserve the right to negotiate additional or different rebates without notice to you at any time.

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

Pizza Guys may and have negotiated purchasing arrangements with suppliers of foods, beverages, products and services for the benefit of its franchise system. Pizza Guys has not established purchasing or distribution cooperatives. Pizza Guys may receive income in the form of rebates, discounts, allowances or other payments or credits from designated or approved suppliers that sell foods, beverages, products or services to franchisees. In some cases, prices charged by suppliers to company-owned Restaurants may be less than prices charged to franchised Restaurants based on volume, credits, administrative costs or other factors. If Pizza Guys receives any rebates or other payments from a supplier as a result of your purchases from the supplier, those payments will be the exclusive property of Pizza Guys. You will not have any rights to the payments made to Pizza Guys by suppliers. During our last fiscal year, as stated in our 2019 audit, we had total revenues of $2,684,953 and we received $134,409 of Gross Revenues, or approximately 5% of our total revenues, from the sale of required products and services to franchisees.

Except as described above, you are not required to purchase or lease products or services from Pizza Guys or an affiliate, and Pizza Guys will not derive revenue or other material consideration based upon your purchases of products or services from designated or approved suppliers or based upon your purchases of products or services that must meet Pizza Guys' standards and specifications.

Pizza Guys does not provide material benefits to you (for example, renewal or granting additional franchises) based upon your purchase of particular products or services or use of particular suppliers.

The following table describes the types of rebates we receive from approved suppliers:

| **Company** | **Item** | **Rebate Rate** |
|---|---|---|
| Jacmar Food Service | Distributor | .55% (of non-mozzarella purchases) |
| Fontanini | Sausage | $0.14 per lb. |
| Lamb Weston | Muncheez | $0.05 per case |

| | | |
|---|---|---|
| Rose Packaging | Canadian Bacon | $0.15 per lb. |
| Hormel | Pepperoni | $2.25 per case |

These amounts are deposited in our general franchise account.

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 | Franchise Agreement ("FA"): 2.01<br>Multi-Unit Development Agreement ('MUDA"): Article 7 | 8, 11, 15 |
| b. Pre-opening purchases/leases | FA: 2 and 3<br>MUDA: Not Applicable | 8, 11 |
| c. Site development and other pre-opening requirements | FA: 2 and 3<br>MUDA: Not Applicable | 8, 11, 15 |
| d. Initial and ongoing training | FA: 3<br>MUDA; Not Applicable | 11, 15 |
| e. Opening | FA: 2 and 3<br>MUDA: Not Applicable | 11, 15 |
| f. Fees | FA: 6, 12.02, 14.01(c)<br>MUDA: 5, 9 and 11 | 5, 6, 7, 17 |
| g. Compliance with standards and policies | FA: 4, 5 and 6<br>MUDA: Not Applicable | 8 |
| h. Trademarks and proprietary information | FA: 7<br>MUDA: 10 and 12 | 13, 14 |
| i. Restrictions on products/services offered | FA: 4.01, 8<br>MUDA: Not Applicable | 8, 16 |
| j. Warranty and customer service requirements | FA: 4.01<br>MUDA: Not Applicable | 8, 15 |
| k. Territorial development and sales quotas | FA: 4.01, 1.03<br>MUDA: 3 and 6 | 12 |
| l. Ongoing product/service purchases | FA: 3.03, 4.01<br>MUDA: Not Applicable | 8 |
| m. Maintenance, appearance, and remodeling requirements | FA: 4.01(k), 2.02, 2.03<br>MUDA: Not Applicable | 6, 15, 17 |
| n. Insurance | FA: 9.02<br>MUDA: Not Applicable | 7 |
| o. Advertising | FA: 5<br>MUDA: Not Applicable | 5, 6, 7 |
| p. Indemnification | FA: 2.01, 2.02, 6.03, 9.02, 9.03<br>MUDA: 9.3 | 6, 13, 14, 15 |

| | | |
|---|---|---|
| q. Owner's participation/management/staffing | FA: 4.01(f)<br>MUDA: 9.6 | 15 |
| r. Records and reports | FA: 6.05, 6.06, 6.07, 14.01<br>MUDA: Not Applicable | 6, 11 |
| s. Inspection and audits | FA: 6.07<br>MUDA: 12 | 7 |
| t. Transfer | FA: 14<br>MUDA: 11 | 17 |
| u. Renewal | FA: 2.01, 2.06, 4.01(f), 6.01(b), 6.02, 6.05(a), 7.01 – 7.03, 8, 13.01 (c), 12 and 16<br>MUDA: 4 | 17 |
| v. Post-termination obligations | FA: 8 and 13<br>MUDA: 15 | 17 |
| w. Non-competition covenants | FA: 8<br>MUDA: 10 and Exhibit C | 17 |
| x. Dispute resolution | FA: 15.05<br>MUDA: 11.5 and 17 | 17 |

ITEM 10. FINANCING

Pizza Guys does not offer directly or indirectly financing arrangements or similar assistance to franchisees. Pizza Guys does not guarantee your note(s), lease(s) or obligations to third parties.

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

**Except as listed below, we are not required to provide you with any assistance.**

A. Our Assistance to You:

Franchise Agreement. Prior to the opening of your Pizza Guys® store, we will:

1. Approve or disapprove of the real estate proposed by you for use as the store premises and negotiate, if possible, an acceptable agreement for the lease of the premises from the lessor. See Franchise Agreement, section 2.01and see Items 8 and 11, herein.

[Note: We approve or disapprove of the store premises proposed by you based upon the experience of our representatives named and described in Item 2. Considerations include, but are not limited to, premises rent, location and physical attributes, existing or likely competition, traffic patterns, population density and demographics, and the proximity to other existing or proposed Pizza Guys® takeout and delivery only pizza stores. See Franchise Agreement, sections 2.01, 2.02 and 2.03.]

2. Provide general plans and specifications for the equipment and furnishings layout, signage, design and other incidents of a typical Pizza Guys® store. (We will not provide energy calculations or plans or specifications for electrical, plumbing, sewer or mechanical systems or compliance with the Americans with Disabilities Act or state disabilities statutes or regulations.) See Franchise Agreement, section 2.02.

[Note: We estimate the typical length of time between the signing of the Franchise Agreement or the first payment of any consideration for the franchise and the opening of your store to be approximately 3 to 9 months. You may not hold us liable for any delay in the construction of the store. See Franchise Agreement, section 2.01.]

3. Provide our food, beverage, ingredients, condiments, cups, containers, napkins, paper goods, packaging and other inventory list. See Franchise Agreement, section 4.01(d).

4. Train you prior to the opening of your store. See Franchise Agreement, section 3.01, and see Item 11, below.

5. Provide (during the Initial Training Program) our Store Operations Manual. See Franchise Agreement, section 3.02. Upon your request, we will permit you to view our Store Operations Manual before you purchase the franchise. The Store Operations Manual contains approximately 568 pages. The table of contents for the Store Operations Manual is attached to this Franchise Disclosure Document as Exhibit 8 (Franchise Agreement – Section 3.02). The Store Operations Manual contains mandatory and suggested standards, specifications, operating procedures, and rules. We may modify the Store Operations Manual periodically to reflect changes in our operating procedures (Franchise Agreement – Sections 3.02 and 4.01(o)).

6. Expend your Initial Advertising Fee (for Franchise Agreements only) to advertise and otherwise promote the opening of your store. See Franchise Agreement, section 5.01(b).

Multi-Unit Development Agreement. Under the Multi-Unit Development Agreement, we will:

1. We will grant to you development rights to a Development Area within which you will assume responsibility to establish and operate an agreed upon number of Franchised Businesses under separate Franchise Agreements (Multi-Unit Development Agreement, Section 2.1).

2. We will review site survey information on sites you select for conformity to our standards and criteria for potential sites and, if the site meets our criteria, approve the site for development of a Franchised Business (Multi-Unit Development Agreement, Section 8.1).

3. We will offer and perform the training, instruction, assistance and other activities set forth in the Franchise Agreements for your Franchised Businesses (Multi-Unit Development Agreement, Section 8.1).

B. Our obligations during the operation of your store are as follows:

1. To provide you with revisions, if any, to the Store Operations Manual. See Franchise Agreement, section 3.02.

2. To be available for consultation concerning the ongoing operations of the store. See Franchise Agreement, section 3.03.

3. To provide an approved format for you to promote your Pizza Guys® store. [Note: We have not established an advertising fund and we are not required to advertise or otherwise increase recognition of and goodwill toward the Pizza Guys® chain.] For the first six (6) months your store is open, we will plan and budget the minimum amount of advertising of your store. However, you may spend more than what we recommend. When your store is ready to open, you will expend an estimated $7,500 minimum per month in advertising fees as incurred within the first six months of opening to advertise the opening of your store. See Franchise Agreement, Article 5.01(a).

C. Advertising.

We intend to use digital media (Internet, Facebook, Twitter, etc.) and targeted print media in our marketing and advertising efforts as well as local and regional radio and television advertising.

We will be using in-house advertising personnel to do this, but we also may hire advertising and public relations firms to assist us in these efforts. We are not required to spend any advertising fees in your territory or in or near your Store, although we may do so.

Advertising Fees are spent to benefit all franchises, including you. We will provide general advertising programs and sales promotion, campaign and sample advertising materials. You may develop advertising materials for your own use, at your own cost. But we must approve all advertising materials in advance and in writing.

We do not yet have a franchisee council that advises us on advertising policies, but we may establish one in the future, and if we do so, we will request input on advertising informally from franchisees.

We will provide an approved format for you to promote your Pizza Guys@ store, however, we have not established an advertising fund and we are not required to advertise or otherwise increase recognition of and goodwill toward the Pizza Guys® chain. For the first six (6) months your store is open, we will plan and budget the minimum amount of advertising of your store. However, you may spend more than what we recommend. You may find it advisable to expend up to $7,500 each month for the first six (6) months your store is open to advertise the opening of your store. See Franchise Agreement, Articles 5&6.

In the Sacramento, California area a Pizza Guys® advertising cooperative exists which determines what advertisements are placed on the basis of one- store-one-vote. Our affiliate, RSM, Inc., operates the majority of the Pizza Guys® stores in the Sacramento area and, accordingly, controls what advertisements are placed in the Sacramento area.

When two or more franchised businesses have been established in a Metropolitan Statistical Area (MSA), we may establish an advertising cooperative in that area. We have the sole power to require cooperatives to be formed, changed, dissolved, or merged. If an advertising cooperative has been established in your territory, you are required to participate in the cooperative advertising group. If the group approves by majority an advertising program you must pay for your share of the expense. Contributions are calculated by a formula based on coverage of material received. For example, commercial contributions are determined by the percentage of media coverage in the area. Coverage percentage is given to us by the media station. Franchisor-owned outlets must contribute to the fund on the same basis as those for franchisees. (Franchise Agreement, Article 5.) Although we may not have an advertising cooperative in your area, we may, from time to time, require that you join a specific advertising campaign and we will electronically withdrawal money from your account for the campaign. (Franchise Agreement, Article 5, and Exhibit 5.) We are responsible for administering the cooperative. All cooperatives will operate under written governing documents which would be made available to you to review. Cooperatives will not be required to prepare annual or periodic financial statements.

You are not required to participate in any other advertising fund.

If all advertising funds are not spent in the fiscal year in which they accrue, a refund will be given back to you.

None of the advertising funds are or will be used primarily for the solicitation for new franchise sales.

D. Business Management System and Computers:

You are required to purchase or use a working facsimile machine at all times, a telephone utilizing Pizza Guys' Message on Hold System, a computer utilizing POS System which must be approved by us, high speed internet connection, as well as other equipment and furnishings on the store premises in order to operate the premises as a Pizza Guys® store. You are required to participate in online ordering and any future programs such as texting orders that Pizza Guys may introduce. You are required to notify us prior to changing your internet provider. The required equipment and furnishings may be purchased outright, or may be leased, or leased and acquired through a lease/purchase agreement from a variety of sources with costs varying according to the size of the store and the specific features of the equipment and furnishings selected.

Your franchise computer system must meet or exceed our minimum requirements, as periodically specified by us, which requirements will be updated from time to time according to changing technology and industry standards. When you purchase and install the POS System, you bear all related costs. Touchpoint.io currently provides a system approved by Franchisor. The initial computer system is included in the Initial Investment. Pizza Guys will have independent access to the information and data maintained in your business computer system. There are no contractual limitations on our right to access the information and data contained therein.

You may obtain your computer hardware and POS system from a supplier approved by Franchisor. You must upgrade it as we specify at our or our approved suppliers' then current prices for the upgraded equipment or software. There are no contractual limitations on the frequency and cost of the upgrades.

There may be additional costs of the chosen computer system attributable to optional or required maintenance and support contracts and upgrades and updates. We may, but currently do not, require you to utilize any maintenance or support services for the computer system. You must ensure all programs and applications running on your computer system are legally licensed. We estimate that maintenance and support services could cost between $300 to $2,700 per year.

You must keep all your cash registers and computer system in good operable repair, at your expense, and you must promptly install additions, changes, modifications, substitutions and replacements to the cash register and computer system as we may reasonably require. You will have the sole and complete responsibility for: (a) acquiring, operating, maintaining and upgrading your own cash register and computer system; (b) the manner in which your cash register and computer system interface with our computer systems, if any, and the computer systems of third parties; and (c) all consequences that may arise if your cash register and computer system is not properly operated, maintained and upgraded.

Neither we, our affiliates, nor a third party has a contractual right or obligation to provide ongoing maintenance, repairs or upgrades for your computer system or related items. However, we will provide you with continuing guidance on the necessity for upgrades, all of which you must complete at your own cost.

E. Customer Gift and Loyalty Card Programs:

You must participate in our Gift and Loyalty Card programs when established. Loyalty cards

will be available for sale and redemption at any Pizza Guys® pizza store. You may only sell or otherwise issue loyalty cards that have been prepared utilizing the standard form loyalty card ("Loyalty Cards") and as specified in the Confidential Operations Manual or otherwise in writing. You will honor all Loyalty Cards that are in the form provided or approved by us regardless of whether a Loyalty Card was issued by you or another Pizza Guys® pizza store.

You will sell, issue, and redeem (without any offset against any Royalty Fees) Loyalty Cards in accordance with procedures and policies specified by us in the Confidential Operations Manual or otherwise in writing. You will pay us our then current ongoing monthly fee for each Pizza Guys® pizza store to manage and maintain the Customer Loyalty Program ("Program Fee"). Your inventory of Loyalty Cards must be purchased directly from the designated vendor. You will pay us our then current fee on a customer sales in which a Loyalty Card is presented. The customer's Loyalty Card will accrue 1 point for each $1 spent at a Pizza Guys® pizza store. We will reimburse the franchisee $0.025 for each point a customer redeems at your Pizza Guys® pizza store. We will perform a monthly reconciliation to calculate the points accrued and redeemed at each Restaurant, and the net difference will be charged/credited to your electronic account.

F. Pizza Guys Training:

**TRAINING PROGRAM**

| Subject | Hours of Classroom Training | Hours of On-The-Job Training | Location |
|---|---|---|---|
| Phase I: Covers subjects which are relevant to the opening and operation of the store, including: (a) the basics of our store site selection; (b) the fundamentals of our store design, decor, and layout; (c) standards and specifications for purchasing food, beverages, inventory, supplies, fixtures, equipment and furnishings; (d) equipment operation; (e) preparation of our limited menu of foods and beverages according to our recipes, formulas and other methods; (f) our floor sales methods and customer relations; (g) our employee training, evaluation, relations and other management practices; (h) our print, radio, television and other advertising and marketing techniques; and (i) such other policies and procedures as we deem advisable. | Until certified | | Location to be selected by Franchisor |
| Phase II: After the opening of your store, we or our representatives shall continue training such person and your general manager | | 5 days, eight (8) hours per day | Your Store |

The above table represents our Initial Training Program. (We may require and you may request that every person signing your Franchise Agreement and your general manager complete our Initial

Training Program.)

The Initial Training Program

Training is conducted by one or more of our principals who are named and whose experience is described in Item 2 of this franchise Disclosure Document or by another one of our representatives under their supervision. There is no separate charge to you for the Initial Training Program. However, you must pay the transportation, meals and lodging expenses for yourself and your manager during Phase I of our Initial Training Program which is usually conducted in Sacramento, California. We shall pay for the travel, lodging, meals or other expenses of our personnel for the duration of Phase II of the Initial Training Program only. Your or your manager's participation in the Initial Training Program is mandatory. You must personally attend the Initial Training Program and you must not open for business until you or your manager have successfully completed Phase I of our Initial Training Program. You acknowledge that we will not be held liable if you or your manager(s) were to get injured in part or wholly due to your/their own negligence. You agree and acknowledge that you will or have insurance covering such liability and will provide copies of such policy upon our reasonable request. You release, indemnify and agree to defend us, our affiliates and representatives from and against any obligation, loss, liability or damage caused by or related to your or your manager(s) own negligence during the Initial Training Program. We may require and you may request that every person signing your Franchise Agreement and your general manager complete our Initial Training Program. We are not required to pay training program participants for their labor. You are responsible for training your employees. Pursuant to your Franchise Agreement, you are required to train your employees/managers. If you want your employees/managers trained by us, we will do so for the actual cost of travel, meals and lodging plus $250 per day. See Franchise Agreement, section 3.01.

For Transfers: The seller of an existing Pizza Guys® store must personally provide the Phase I initial training to the buyer(s) prior to close of escrow. We have no obligation to provide Phase I initial training to the buyer(s) but will provide the Phase II initial training to the buyer(s) after close of escrow if required. If we are not satisfied with the Phase I initial training by you to buyer, we, in our sole discretion, have the right to make the buyer go through Phase I training again.

After the Initial Training Program, we will be available for consultation with you concerning the ongoing operation of the store. See Franchise Agreement, section 3.03.

We may, but are not required to, offer additional training courses and/or refresher courses to you. We reserve the right to require you to attend or to otherwise participate in such additional training. You must pay all transportation, lodging, and other expenses incurred in attending such additional training courses.

If you believe that our Initial Training Program is not adequate for you or for the particular circumstances of your store, additional training at your store may be purchased from us for the actual cost of travel, meals and lodging plus $100 per day. You must make your request for additional training to us in writing and pre-pay for the same before we will schedule additional training.

## ITEM 12. TERRITORY

You will receive an exclusive territory. We have not established and will not establish another franchised or company-owned Pizza Guys® pizza store or any other franchised or company-owned store serving pizza under the same or a different trade name or trademark within a two (2) mile radius of your store premises (the "Exclusive Area") excepting situations where a natural or artificial condition is an impediment to travel such as freeways, rivers and the like, in which case we may

establish another franchised or company-owned store serving pizza within a two (2) mile radius of your store. Notwithstanding the Exclusive Area, you and other franchisees may serve walk-in customers from any area and deliver to call-in customers in any area. You may not directly solicit customers outside of the Exclusive Area without our permission. "Direct solicitation" includes, but is not limited to, solicitation in person, by telephone, by mail, through the Internet, social media, email or other electronic means, and by distribution of brochures, business cards or other materials. If any direct solicitation of customers within the Exclusive Area is in media that will or may reach a significant number of persons outside of the Exclusive Area, you must notify us in advance and obtain our consent. See Franchise Agreement, section 1.03, below.

If you sign a MUDA, your Development Area will not be exclusive. 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 sign a MUDA in the form attached as Exhibit 2 to this disclosure document, we will approve sites for future/additional locations based on our then-current site criteria.

You and Pizza Guys will agree upon the territory before signing the Franchise Agreement. Any change in the definition of your territory must be in writing. You have no right to relocate your franchise without written approval of Pizza Guys.

You may only have one franchise business located within the territory established by each franchise agreement. You do not receive the right to acquire additional franchises or resell any portion of your territory. Pizza Guys franchisees who are qualified to open multiple locations are given the option to open more than one location within an approved area and specific timeline. The approved area and timeline are negotiated on a case by case basis depending in part on the qualifications of the Franchisee.

You do not have the right to establish additional franchised outlets unless you sign a MUDA in the form attached as Exhibit 2 to this disclosure document. If you and we sign a MUDA, then you will have the right establish a mutually-agreed number of additional Pizza Guys® stores. Under the MUDA, your right to develop additional stores is subject to the following: (1) you must comply with the mutually-agreed development schedule, (2) you must have sufficient financial and organizational capacity to develop, open, operate, and manage each additional Pizza Guys® business, (3) you must be in compliance with all brand requirements at your open Pizza Guys® business(es), and (4) you must not be in default under any other agreement with us.

There are currently no company owned businesses similar to your franchise business, though Pizza Guys is not prohibited from establishing some.

Pizza Guys has no plans for selling or licensing similar products or services under a different trade name or trademark, other than the Pizza Guys trade name and trademark.

Any additional sales or service facility locations you wish to open must be the subject of an additional franchise agreement under a MUDA. Your designated franchise area may only be changed by written agreement between Pizza Guys and you.

Pizza Guys does not grant you any right to establish a business using the marks of Pizza Guys other than in an approved territory. Further, Pizza Guys does not grant you any options, rights of first refusal, or similar rights to license others to establish, license, or franchise any business using the marks.

ITEM 13. TRADEMARKS

We license you the right to operate your store under the "Pizza Guys®" trade name, trademark and service mark and to use such other trade names, service marks, trademarks and logos as we from time to time decide, and you must operate your store under only such trade names, service marks, trademarks and logos.

Our principals have obtained registration of and have assigned to us the following mark(s) on the Principal Register in the United States Patent and Trademark Office ("USPTO") for the following goods and services:

| **Mark** | **Date of Registration** | **USPTO Registration No.** |
|---|---|---|
| Pizza Guys | January 28, 1997<br>Renewed on January 7, 2017 | 2,034,329 |
| Pizza Guys | December 10, 1996<br>Renewed on January 19, 2017 | 2,022,471 |
| Pizza Guys The Better Guys | June 11, 2002<br>Renewed on January 24, 2012 | 2,578,298 |
| Pizza Guys Real Pizza Real Value | September 25, 2018 | 5,568,672 |
| Pizza Guys A Party in Every Pizza | August 7, 2018 | 5,533,532 |
| I'm a Pizza Guy | April 16, 2013<br>Renewed on June 14, 2018 | 4,321,056 |
| Artisan Made Pizza Guys Est. 1986 I'm a Pizza Guy | March 22, 2016 | 4,922,283 |

All required affidavits and renewals have been filed.

There are no currently effective material determinations of the USPTO, the Trademark Trials and Appeal Board, the trademark administrator of this or any state, or any court, and there is no pending infringement, interference, opposition or cancellation proceeding or any pending material litigation involving our use of the "Pizza Guys®" trade name, trademark or service mark. There are no agreements currently in effect which significantly limit the right of us to use or license the use of the "Pizza Guys®" trademark or service mark in a manner material to this franchise.

You must follow our rules when you use our marks. You shall not use the words "PIZZA GUYS," "PIZZA GUYS THE BETTER GUYS" "GUYS," "GUY," "MEN," "MAN," "SUPERB," "PIZZA GUYS REAL PIZZA REAL VALUE," "PIZZA GUYS A PARTY IN EVERY PIZZA," "I'M A PIZZA GUY," ARTISAN MADE PIZZA GUYS EST. 1986 I'M A PIZZA GUY" or any formative thereof or any other trade name, trademark, service mark or logo now or later designated by us or any mark confusingly similar thereto or attempt to register the same with any local government, state, or nation.

You are not allowed to have a web domain that includes the "Pizza Guys" name in it.

Because of the potentially great expense of prosecuting or defending the marks, we reserve the absolute right to choose whether or not to prosecute or defend the marks or to change the marks to one or more other marks of our choosing. A name change would entail substantial expense to you including, but not limited to, that occasioned by the change of signage and advertising and the resulting loss of customer goodwill. A name change will in no way reduce or relieve you of your

obligation to pay the Weekly Franchise Fee, the Telephone Number Lease, the store premises lease, and any other obligation owed to us, our affiliates or representatives, or any obligation to trade vendors, the landlord for the store, etc. Accordingly, our license of the marks to you shall not constitute our warranty or guarantee of our ownership of the marks or our duty to defend the same.

You release and indemnify us from and against any claim, obligation, loss, liability or damage caused you by our lack of ownership or failure to prosecute or defend or to obtain registration of the marks or by a mark change, if any.

You are required to notify us of the use of; or claims of rights to, a trade name, service mark, trademark or logo identical to, or confusingly similar to, a trade name, service mark, trademark or logo licensed by us to you.

We are required to participate in your defense, but not to indemnify you for expenses or damages, if you are a party to an administrative or judicial proceeding involving a trade name, service mark, trademark or logo licensed by us to you.

## ITEM 14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We do not own any right in, or licenses to, any patents or copyrights which is material to the franchise.

You acknowledge that the customer list which you develop and our franchise system in its entirety, including, but not limited to: recipes; food and beverage specifications and sources; site selection criteria; store design and decor specifications; construction methods; fixtures, furnishings and equipment; employee selection, training, and evaluation; print, radio, television and other advertising and promotional techniques; inventory, accounting and other business policies and procedures; all of which will continue to develop and all other information now or hereafter conveyed in whatever form to you by us, our affiliates or representatives; constitutes our confidential trade secrets and/or unpublished or published copyrights and the same is for your use solely for the purpose of enabling you to establish and operate your store in accordance with the terms of this franchise. Accordingly, except in accordance with the terms of this franchise, without our prior written consent you shall not: (a) appropriate or use any of the foregoing in whole or in part; (b) disclose any of the foregoing in whole or in part to anyone except to another Pizza Guys® franchisee or to store employees as required for store operations; or (c) duplicate, reprint or otherwise copy any of the foregoing in whole or in part for any purpose except as is required for store operations. The Store Operations Manual is described in Item 11.

The Store Operations Manual is copyrighted and the information therein is proprietary. Item 11 of this Disclosure Document describes limitations on the use of the Store Operations Manual by you and your employees. You agree not to contest our use or ownership of the copyright or proprietary information. You must also promptly notify us when you learn about unauthorized use of this proprietary information. We are not obligated to take any action but will respond to this information as we deem appropriate. If you are a party to an administrative or judicial proceeding involving a copyright or proprietary information, we are required to participate in your defense, but not to indemnify you for expenses or damages.

Online ordering and text message ordering are owned by Pizza Guys and you are not allowed to have a link on any personal website or other website other than the Pizza Guys' website to the online ordering unless consented to by franchisor

Just as you desire to learn from us, we hope to learn from you and to share what we have

learned from you with our other stores. Accordingly, you shall promptly disclose to us all ideas, improvements and materials (including but not limited to menu and recipe suggestions, advertising artwork and promotional materials), whether patentable, copyrightable or not, relating to the goods and services provided at, or the operation of; your store which you or any of your legal or' beneficial owners, partners, shareholders, officers, directors, agents, or employees, solely or jointly with others, develop during the franchise term and any renewal/extension term. You hereby irrevocably assign the exclusive right to the same to us in perpetuity and you specifically grant us permission to license you and our other stores to use those ideas, improvements and materials of yours which we approve. You agree that we owe you no other consideration for your development, assignment and our use of the same but for the license back of the same to you.

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

You will be engaged in your own business and, as such, you will be solely responsible for directing the day-to-day activities of your store and supervising the actual physical activities of your employees. The Franchise Agreement requires you to do the things described below.

You must locate and propose to us premises suitable for use as your Pizza Guys® store in the general area described in Franchise Agreement, section 1.02, but you must not enter into any negotiations with the lessor of the proposed premises.

You must comply with all terms of the Franchise Agreement, the Store Operations Manual, the Telephone Number Lease, and the store premises lease.

Each of your legal and beneficial owners, partners, shareholders, officers and directors must personally guarantee the Franchise Agreement, the Telephone Number Lease, and the store premises lease, if applicable.

You must bear the entire cost of adapting our general plans and specifications to the particular circumstances of the store premises including, but not limited to, the employment of an architect, engineer or other consultants as necessary. However, you must not contract for, or commence the construction of; the store without first obtaining our written approval of all plans and specifications as adapted.

You must bear the entire cost of improving the store premises including, but not limited to, payment of all material and service providers and government fees. All contracts with service or material providers must be made between you and the applicable service or material provider. The collection of any credit or payment offered by the master lessor for improvement of the store premises (e.g., "tenant allowance," etc.) is your sole responsibility, and you release, indemnify and agree to defend us from and against any obligation, loss, liability or damage caused by, or related to, the same.

You or your manager must personally attend the Initial Training Program and you must not open for business until you or your manager have successfully completed Phase I of our Initial Training Program. You or your manager are responsible for training your employees. If you want your employees/managers trained by us, we will do so for the actual cost of travel, meals and lodging plus $250 per day. Each employee must be certified for each position they provide services for.

You must comply with our advertising policies as revised from time to time and must attend all advertising meetings. When two or more franchised businesses have been established in a Metropolitan Statistical Area (MSA), we may establish an advertising cooperative in that area. If an advertising cooperative has been established in your territory, you are required to participate in the cooperative advertising group. If the group approves by majority an advertising program you must

pay for your share of the expense. See Franchise Agreement, Article 5. Although we may not have an advertising cooperative in your area, we may, from time to time, require that you join a specific advertising campaign and we will electronically withdrawal money from your account for the campaign. (Franchise Agreement, Article 5, and Exhibit 5.)

You or an approved operator are required to attend all mandatory quarterly franchise and advertising meetings. Your failure to attend a mandatory meeting on the first instance will result in an oral warning, the second instance will result in a written warning, and the third instance will be grounds for termination of the Franchise Agreement. See Franchise Agreement, Articles 4 and 11.

You must represent and warrant that you: (1) do now and will, for the duration of the Franchise Agreement, live in the locality of the store; (2) shall personally manage and shall personally devote your full-time best efforts to the day-to-day operations of the store; (3) do now own, and for the duration of the Franchise Agreement shall continue to own, the entire equity interest in the Franchise Agreement, in the business of the store and in its profits, except only as otherwise permitted pursuant to the terms of the Franchise Agreement; and (4) do not have any undisclosed partnerships and any undisclosed partnerships or other agreement to share profits is void ab initio. See Franchise Agreement, section 4.01(f).

You must understand that the success of the business venture contemplated to be undertaken pursuant to the Franchise Agreement depends primarily upon your ability to succeed as an independent business person and you acknowledge and agree that neither us nor any of our agents or representatives have made any oral, written or visual representations of projections of actual or potential sales, earnings, or net or gross profits. You must also understand that our sale of the franchise to you or our approval of the store location and premises does not guarantee success of your store. We cannot, and do not, guarantee that you will succeed in the operation of this business venture. In fact, you must understand that the store may lose money or fail.

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

The Franchise Agreement requires you to sell and deliver the limited menu of foods, beverages and merchandise approved by us from time to time and to sell and deliver only those items. The Franchise Agreement also requires all Franchisees to sell and accept Pizza Guys gift cards. The monthly fee will be deducted electronically by Pizza Guys at the first of the month. There are no restrictions on the customers to whom you may sell. Menus may vary from region to region. See Franchise Agreement, section 4.01(b).

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

### THE FRANCHISE RELATIONSHIP

**The following 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 the franchise term | FA: 12.01 | FA: 10 years for Franchise Agreement |

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| | MUDA: 4.1 | MUDA: Upon execution of the last Franchise Agreement pursuant to the Development Schedule |
| b. Renewal or extension of the term | FA: 12.02<br><br>MUDA: 4.3 | FA: If you are in good standing, you may renew or extend the term for unlimited successive terms equal to the original term of your Franchise Agreement<br>MUDA: No right to renew. |
| c. Requirements for franchisee to renew or extend | FA: 12.02, 2.06<br><br>MUDA: Not Applicable | FA: You must give us timely written notice, pay Renewal/Extension Fee, remodel the store to our standards, if we require, sign release and sign new Franchise Agreement and related documents. As a further condition of renewal (or extension), if we deem your store is in an unsafe location, we may require you to relocate your store within your Exclusive Area to a location pre-approved by us in accordance with Article 2 of the Franchise Agreement. You shall bear the entire cost of relocating your store. Note: You must pay us the Renewal/Extension Fee and remodel the store only if you have a Franchise Agreement.<br>MUDA: Not Applicable |
| d. Termination by franchisee | Not Applicable | FA: You may not terminate the franchise prior to the expiration of the term of the franchise<br>MUDA: The Agreement does not provide for this. But you may seek to terminate on any grounds available to you at law. |
| e. Termination by franchisor without cause | Not Applicable | N/A |
| f. Termination by franchisor with cause | FA: 11.01, 11.02, 10.01, 10.02<br><br>MUDA: 14.1, 14.2 and 14.3 | FA: The franchise agreement permits us to terminate it for cause during the term and before expiration.<br><br>MUDA: We can terminate if you default. |
| g. "Cause" defined - curable defaults | FA: 11.01, 10.01, 10.02<br><br>MUDA: 14.3 | FA: "Good Cause" means "failure to comply with any lawful requirement of the franchise" which includes any failure to comply with any provision of the Franchise Agreement, Store Operations Manual, or the Telephone Number Lease. Except as described in Item 17.h., below, you have a reasonable opportunity after notice (which in no event need be more than 60 days) to cure the failure.<br>MUDA: Except for defaults described in h below, you have 15-days to cure any default under the MUDA. |
| h. "Cause" defined - non-curable defaults | FA: 11.02, 10.01, | FA: You or the store is declared bankrupt or judicially determined to be insolvent, or all or |

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| | 10.02<br><br>MUDA:<br>14.1 and 14.2 | a substantial part of the assets thereof are assigned to or for the benefit of any creditor, or you admit your inability to pay your debts as they come due; you abandon the franchise by failing to operate the business for 5 consecutive days during which you are required to operate the business under the Franchise Agreement, or any shorter period after which it is not unreasonable under the facts and circumstances for us to conclude that you do not intend to continue to operate the franchise, unless such a failure to operate is due to fire, flood, earthquake or other similar causes beyond your control; us and you agree in writing to terminate the franchise; you make any material misrepresentation relating to the acquisition of the franchised business or you and/or an employee of yours engage in conduct which reflects materially and unfavorably upon the operation and reputation of the store of the Pizza Guys® store chain; you fail, for a period of 10 days after notification of noncompliance, to comply with any federal, state or local law or regulation applicable to the operation of the franchise; after curing any failure in accordance with Franchise Agreement, section 11.01, you engage in the same noncompliance whether or not such noncompliance is corrected alter notice; you repeatedly fail to comply with one or more requirements of the Franchise Agreement, whether or not corrected after notice; the store or the store premises are seized, taken over or foreclosed by a government official in the exercise of his duties, or seized, taken over, or foreclosed by a creditor, lienholder or lessor, provided that a final judgment against you remains unsatisfied for 30 days (unless a supersedes or other appeal bond has been filed); or a levy of execution has been made upon the license granted by the Franchise Agreement or upon any property used in the franchised business, and it is not discharged within 5 days of such levy; you are convicted of a felony or any other criminal misconduct which is relevant to the operation of the franchise; you fail to pay any franchise fee or other amount due to us or our representatives within 5 days after receiving written notice that such fees are overdue; If we find that you purposely reported incorrect sales; You fail to permit us, our |

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| | | representatives, accountants, attorneys and other agents to inspect and audit, without notice, during regular business hours your books and records. Or, an inspection or audit discloses that actual Gross Sales exceed your reported Gross Sales, and you fail to pay us: (a) the additional amount owed, (b) interest on said amount from the date originally due until paid, and (c) if actual Gross Sales exceed your reported Gross Sales by 2% or more, the cost of the inspections and audits which revealed the under-reported sales including, but not limited to, our agents' fees, travel, meals and lodging; or, we make a reasonable determination that your continued operation of the franchise will result in an imminent danger to public health or safety.<br><br>MUDA: Non-curable defaults include, but are not limited to: general assignment for benefit of creditors, bankruptcy, appointment of a receiver, dissolution, levy/execution on assets; failure to meet Development Schedule; omission or misrepresentation of material fact; upon mutual agreement by the parties; plea to or conviction of a felony; unauthorized transfer; any involvement with a competitive business; unauthorized use of confidential information; failure to obtain executed Confidentiality/ Noncompetition Agreement; fail to obtain our prior approval, as required; unauthorized duplication of Confidential Information; cease to operate all Franchised Businesses; engage in business under marks confusingly similar to Proprietary Marks; open a Franchised Business prior to executing a franchise agreement and paying the initial franchise fee; or engage in conduct that reflects materially and unfavorable upon our reputation, the System or the Franchised Business. |
| i. Franchisee's obligations on termination/non-renewal | FA: 13.01<br><br>MUDA: 15.1 | FA: Pay us all moneys due; return the Store Operations Manual and all other materials furnished to you, together with any other materials containing any of our trade names, service marks, trademarks or other indicia, any formative thereof or any name or mark potentially confusingly similar thereto, any of our trade secrets or copyrights; and any idea, improvement or discovery; Not thereafter use our trade names, service marks, trademarks and other indicia or any signs and printed |

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| | | goods bearing such names and marks or any other trade name, service mark, trademark or other indicia similar to or likely to be confused with those of us; not thereafter use any part of the franchise system; and not thereafter disclose, reveal or publish to any person any part of the franchise system; and not disclose, reveal or publish to any person any part of the franchise system; and honor your post-termination covenant not to compete for a term of 5 years within 10-mile radius of a Pizza Guys store.<br>MUDA: You must pay all money owing to us or our affiliates, and third parties; pay all expenses, including attorney's and expert's fees, if we terminate for cause; sign all agreements necessary for termination; comply with the post-termination/ post-expiration covenants not to compete; and continue to abide by restrictions on the use of our Confidential Information.<br>Termination of the Multi-Unit Development Agreement for your failure to comply with the Development Schedule will not terminate any of the Franchise Agreements you already signed with us, so long as you have opened the Franchised Business covered by the signed Franchise Agreements and you are not in default of the Franchise Agreements. |
| j. Assignment of contract by franchisor | FA: 14.04<br><br>MUDA: 11.1 | FA/ MUDA: We may assign without restriction and shall thereafter be deemed released from all liability. |
| k. "Transfer" by franchisee - defined | FA: 14.01-14.03<br><br>MUDA: 11.2 | FA: A "transfer" includes any sale, transfer, assignment or other hypothecation (such as mortgaging or pledging as security or collateral for a debt) in whole or in part' directly or indirectly whether voluntarily or by operation of law of any interest in the franchised business, the Franchise Agreement, the store or the store's assets (except for sales in the usual course of business) and any interest of any of the restaurant's legal or beneficial owners, partners, shareholders, officers or directors or persons signing the Franchise Agreement<br>MUDA: Includes any assignment or transfer of your rights and obligations under the MUDA, the Franchised Business, or any interest in the Franchised Business or a Business Entity Franchisee (including any capital stock, membership, partnership or |

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| | | proprietary interest of you or anyone who controls you). |
| l. Franchisor approval of transfer by franchisee | FA: 14.01<br><br>MUDA: 11.2, 11.3 and 11.4 | FA: You may request to transfer. We have the right to approve or deny your request to transfer in our sole and absolute discretion. You may transfer upon death subject to the requirements set forth in the Franchise Agreement.<br>MUDA: No transfer without our consent. |
| m. Conditions for franchisor approval of transfer | FA: 14.01<br><br>MUDA: 11.2 | FA: The process of transferring a Pizza Guys® store is governed by the Franchise Agreement which provides that you may not transfer all or part of the store (or any interest in any corporation or partnership which owns or operates the store) without following the procedure which is set forth in the Franchise Agreement.<br>MUDA: Conditions for transfer include not being in default, at least 25% of all Franchised Businesses required to be developed are open or under construction, all debts are paid, the transferee meets our current criteria for new Multi-Unit Operators and executes our then-current MUDA, you sign a general release (where legal), payment of transfer fee, buyer personally guarantees all obligations. |
| n. Franchisor's right of first refusal to acquire franchisee's business | FA: 13.01(c), 14.01<br><br>MUDA: 11.5 | FA: We may purchase any interest sought to be transferred on the terms proposed. We have the option for thirty (30) days to purchase your store's equipment, furnishings, fixtures, signs, inventory, leasehold or building and real estate, and improvements and other real or personal property or any portion thereof for a sum equal to the fair market value of such property. There shall be no payment by us for intangible assets including, but not limited to, goodwill.<br>MUDA: We have the right to match the offer to purchase your business. |
| o. Franchisor's option to purchase franchisee's business | FA: 14.01<br><br>MUDA: Not Applicable | FA: Upon expiration or termination of the franchise, we have the option for 30 days to purchase your equipment, furnishings, fixtures, signs, inventory, leasehold and improvements and other property or any portion thereof for a sum equal to the fair market value of such property. We are not required to pay you for your intangible assets including, but not limited to, goodwill. Upon the death (or the death of the majority partner or shareholder of a partnership or corporate franchisee), we have the option to purchase the franchised business, if: within the period set |

| | | |
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| | | forth in the Franchise Agreement, the surviving spouse, heirs, or the representative fail to take and pass the Initial Training Program or to otherwise qualify as a franchisee. An independent appraisal of the franchise assets in order to determine fair market value for repurchase purposes is not required by the Franchise Agreement.<br>MUDA: Not Applicable |
| p. Death or disability of franchisee | FA: 14.01(a)(b)<br><br>MUDA: 11.4 | FA: For not more than 120 days after the death of you (or the death of the majority partner or shareholder of a partnership or corporate franchisee), the surviving spouse, heirs, or representative of the estate of the deceased may participate in the ownership of the of the franchise under the terms of the Franchise Agreement. Then they must either take and pass the Initial Training Program and satisfy all of our then current qualifications and requirements for new franchises or sell the franchise pursuant to a request to transfer to a person who satisfies our qualifications. See Item 17. m., above.<br>If you become disabled and are not able to operate the store, you may have a representative participate in the operation and ownership of the franchise under the terms of the Agreement for a reasonable time, not to exceed 120 days, after the disability occurs. During that time the store must be operated by a person approved by us.<br>MUDA: On the death or disability of your last surviving owner, the rights of such deceased or disabled person shall pass to his or her "Estate". The Estate must transfer said interests to an approved party within 3 months of the date an executor, administrator or personal representative is appointed to the Estate. |
| q. Non-competition covenants during the term of the franchise | FA: 8<br><br>MUDA: 10.2.1 | FA: During the franchise term and any renewal/extension term and for five (5) years following the transfer, expiration or termination of the franchise, you and your legal and beneficial owners, partners, shareholders, officers and directors shall not, without our prior written consent, directly or indirectly, engage in, acquire any financial or beneficial interest in (including interests in corporations, partnerships or trusts, limited liability companies, unincorporated associations and joint ventures), or become an employee of or a consultant to, or lessor for, |

| | | |
|---|---|---|
| | | any company which is similar to a Pizza Guys store or which prepares, serves or sells pizza within a 10-mile radius. Ownership of less than 2% of the shares of a company with shares listed and traded on a national or regional securities exchange shall not be deemed to violate these covenants not to compete so long as neither you nor any of your legal or beneficial owners, partners, shareholders, officers or directors are employed in any capacity by such company.<br>MUDA: No diversion of any business to any competitor and no interest in any competing business anywhere. |
| r. Non-competition covenants during the term of the franchise | FA: 8<br><br>MUDA: 10.2.2 | FA: During the franchise term and any renewal/extension term and for five (5) years following the transfer, expiration or termination of the franchise, you and your legal and beneficial owners, partners, shareholders, officers and directors shall not, without our prior written consent, directly or indirectly, engage in, acquire any financial or beneficial interest in (including interests in corporations, partnerships or trusts, limited liability companies, unincorporated associations and joint ventures), or become an employee of or a consultant to, or lessor for, any company which is similar to a Pizza Guys store or which prepares, serves or sells pizza within a 10-mile radius. Ownership of less than 2% of the shares of a company with shares listed and traded on a national or regional securities exchange shall not be deemed to violate these covenants not to compete so long as neither you nor any of your legal or beneficial owners, partners, shareholders, officers or directors are employed in any capacity by such company.<br>MUDA: No involvement in competing business for 5 years within your Development Area, within a 10 mile radius of the perimeter of your Development Area or within a 10 mile radius of the perimeter of (or within) any Pizza Guys business (whether company-owned, franchised or otherwise established and operated). No diversion of business to any competitor and no employment of any current employee or any former employee that worked within the last 90 days. |
| s. Modification of the agreement | FA: 15.09<br><br>MUDA: | FA: No modification may be made unless in writing signed by us and you, except we may unilaterally modify the Pizza Guys® menu, |

| | | |
|---|---|---|
| | 17.5 | recipes, marks, methods, procedures, and the Store Operations Manual as we deem advisable, all of which you acknowledge that we have developed and own and will continue to develop and own.<br>MUDA: No modifications except, in writing, by mutual agreement of the parties. |
| t. Integration/merger clause | FA: 15.08<br><br>MUDA: 17.5 | FA: The terms of the Telephone Number Lease and the Store Operations Manual, as revised from time to time, are incorporated by reference into the Franchise Agreement and are binding (subject to state law). Any other promises may not be enforceable.<br>MUDA: Only written terms of MUDA are binding (subject to state law). Any other promises may not be enforceable, except that the MUDA does not disclaim any representations made in this disclosure document. |
| u. Dispute resolution by arbitration or mediation | FA: 15.05<br><br>MUDA: 17.14 | FA: Except as specifically limited below, any dispute between you and us regarding this Agreement and all matters relating to the validity, construction, performance and enforcement hereof shall be heard by a referee pursuant to the provisions of California Code of Civil Procedure §§638 through 645.1.<br>MUDA: Except for certain claims, all disputes must be litigated within the county of Sacramento in the State of California (subject to state law) |
| v. Choice of forum | FA: 15.05<br><br>MUDA: 17.14 and 12.3 | FA: Subject to state law, any dispute shall be heard in Sacramento, California. The forum for any legal action (including litigation regarding the scope of the referee's jurisdiction) shall be the proper court of the state of California in the County of Sacramento or in the United States District Court for the Eastern District of California, Sacramento Branch<br>MUDA: Litigation must be brought in Sacramento, California. |
| w. Choice of law | FA: 15.05<br><br>MUDA: 17.13 | FA/ MUDA: California law will govern (subject to state law). |

ITEM 18. PUBLIC FIGURES

We do not use any public figure to promote our franchise.

ITEM 19. FINANCIAL PERFORMANCE REPRESENTATIONS

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

On December 31, 2019, there were 69 Pizza Guys Stores open and in continuous operation during the entire calendar year ending December 21, 2019. Of those 69 Pizza Guys Stores, 61 are franchisee owned, two were subleased from affiliate owned Stores, and 8 are affiliate owned Stores. The analysis below is based solely on the yearly gross sales for those 69 Pizza Guys Stores for 2019.

The following tables refer to "Gross Sales." "Gross Sales" means all revenue received from operating a Pizza Guys Store, excluding sales tax, discounts, allowances, and returns.

**Table 1**

**Franchised Gross Sales**
**Stores Operating for the Entire 2019 Calendar Year**

The following Table provides Franchised Stores average, highest, lowest, and median Gross Sales for the 61 Pizza Guys Stores operating for the entire calendar year ending 2019.

| **Franchised Gross Sales**<br>**Stores Operating for the Entire 2019 Calendar Year** | |
|---|---|
| # Stores[1] | 61 |
| 2019 Average Gross Sales | $ 833,871.21 |
| Highest Gross Sales | $ 1,663,537.17 |
| Lowest Gross Sales | $ 84,205.16 |
| Median Gross Sales | $ 820,695.99 |
| # of Stores Exceeding Median Gross Sales | 31 |
| % of Stores Exceeding Median Gross Sales | 51% |

[*Remainder of page intentionally left blank*]

[1] Two Affiliate Owned Stores which are subleased are included in this Table

**Table 2**

**Affiliate Owned[2] Gross Sales**
**Stores Operating for the Entire 2019 Calendar Year**

The following Table provides Affiliate Owned Stores average, highest, lowest, and median Gross Sales for the 8 Pizza Guys Stores operating for the entire calendar year ending 2019.

| **Affiliate Owned Gross Sales** |
|---|
| **Stores Operating for the Entire 2019 Calendar Year** |

| | |
|---|---|
| # Stores[3] | 8 |
| 2019 Average Gross Sales | $ 928,367.09 |
| Highest Gross Sales | $ 1,310,404.15 |
| Lowest Gross Sales | $ 611,986.03 |
| Median Gross Sales | $ 904,767.00 |
| # of Stores Exceeding Median Gross Sales | 3 |
| % of Stores Exceeding Median Gross Sales | 38% |

**Table 3**

**Systemwide Gross Sales**
**Stores Operating for the Entire 2019 Calendar Year**

The following Table provides systemwide average, highest, lowest, and median Gross Sales for the 69 Pizza Guys Stores operating for the entire calendar year ending 2019.

| **Systemwide Gross Sales** |
|---|
| **Stores Operating for the Entire 2019 Calendar Year** |

| | |
|---|---|
| # Stores | 69 |
| 2019 Average Gross Sales | $ 844,827.26 |
| Highest Gross Sales | $ 1,663,537.17 |
| Lowest Gross Sales | $ 84,205.16 |
| Median Gross Sales | $ 842,427.22 |
| # of Stores Exceeding Median Gross Sales | 35 |
| % of Stores Exceeding Median Gross Sales | 51% |
| In Store Ticket Average | $ 27.18 |
| Online Ordering Ticket Average | $ 31.16 |
| % of Online Ordering | 37.15% |

[2] Affiliate Owned stores are owned and operated by our affiliate, RSM, Inc.

[3] Two Affiliate Owned stores are subleased and excluded from this Table

**Table 4**

**Range of Gross Sales**
**Stores Operating for the Entire 2019 Calendar Year**

The following table shows the ranges of Gross Sales for the 69 Pizza Guys Stores operating for the entire calendar year ending 2019.

| **Range of Gross Sales**<br>**Stores Operating for the Entire 2019 Calendar Year** | | |
|---|---|---|
| Range of Gross Sales for 2019 | # Stores within Range of Gross Sales | % Stores within Range of Gross Sales |
| Greater than $1,200,000 | 7 | 10% |
| $1,000,000 to $1,200,000 | 8 | 12% |
| $800,000 to $1,000,000 | 23 | 33% |
| $600,000 to $800,000 | 25 | 36% |
| Below $600,000 | 6 | 9% |
| Total | 69 | 100% |

**General Notes**

Written substantiation for the financial performance representations will be made available to you on reasonable request. This analysis is intended to be used as a reference when you conduct due diligence before signing our Franchise Agreement. We recommend that you make your own independent investigation to determine whether or not Pizza Guys franchise may be profitable, and that you consult with legal, accounting and other business advisors before signing our Franchise Agreement. No certified public accountant has audited these figures or expressed his or her opinion with regard to the content or form.

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

The data is based on reports submitted by the franchisees or our polling of the information directly from the franchisees' point-of-sale systems. Neither we nor our affiliates have undertaken an independent investigation to verify the Gross Sales reported by franchisees. The information presented is based on Pizza Guys' internal financial data, the unaudited financial data and records of Pizza Guys' affiliate(s), and self-reported and unaudited and unverified records of Pizza Guys' 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 stores used in this item 19 offer substantially the same products and services to their customers.

These financial performance representations do not include information concerning net profits that may be realized in the operation of a Pizza Guys Store.

Other than the preceding financial performance representation, Pizza Guys does not make any financial performance representations. Pizza Guys also does not authorize its employees or

representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, Pizza Guys may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Shahpour Nejad, 2731 Citrus Road, Suite A, Rancho Cordova, CA 95742, (916) 852-2222, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20. OUTLETS AND FRANCHISEE INFORMATION

The number of Pizza Guys franchises similar to those offered herein as of Pizza Guys' most recent three (3) fiscal years is as follows:

**Table No. 1**
**Systemwide Outlet Summary**
**For Years 2017 to 2019**

| Outlet Type | Year | Outlets at the Start of the Year | Outlets at the End of the Year | Net Change |
|---|---|---|---|---|
| Franchised[1] | 2017 | 54 | 57 | +3 |
| | 2018 | 57 | 58 | +1 |
| | 2019 | 58 | 61 | +3 |
| Company-Owned[2] | 2017 | 9 | 8 | -1 |
| | 2018 | 8 | 8 | 0 |
| | 2019 | 8 | 8 | 0 |
| Total Outlets | 2017 | 63 | 65 | +2 |
| | 2018 | 65 | 66 | +1 |
| | 2019 | 66 | 69 | +1 |

1) Stores which are either owned and operated by our franchisees or are owned by our franchisees and are subleased to others and are operated by the sublessee or are owned by RSM, Inc. and are operated by sublessees have been included in this table as franchised stores. Stores owned and operated by RSM, Inc., our affiliate, are included in this table as "Company Owned".

2) We have never opened and in the next fiscal year do not intend to open "company owned" Stores. The stores reflected in the "company owned" column above are actually owned and operated by RSM, Inc., our affiliate. Stores owned by RSM, Inc., our affiliate, but are either owned and operated by our franchisees or are owned by our franchisees and are subleased to others and are operated by the sublessee or are owned by RSM, Inc. and are operated by sublessees are included in this table as "Franchised".

[*Remainder of page intentionally left blank*]

**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 |
|---|---|---|
| California | 2017<br>2018<br>2019 | 0<br>0<br>0 |
| Nevada | 2017<br>2018<br>2019 | 0<br>0<br>0 |
| Oregon | 2017<br>2018<br>2019 | 0<br>0<br>0 |
| Total | 2017<br>2018<br>2019 | 0<br>0<br>0 |

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

| State | Year | Outlets at Start of Year | Outlets Opened | Termina -tions | Non-Renewals | Reacquired by Franchisor | Ceased Operations Other Reasons | Outlets at End of the Year |
|---|---|---|---|---|---|---|---|---|
| California | 2017<br>2018<br>2019 | 50<br>53<br>54 | 3<br>1<br>2 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 53<br>54<br>56 |
| Nevada | 2017<br>2018<br>2019 | 2<br>2<br>2 | 0<br>0<br>1 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 2<br>2<br>3 |
| Oregon | 2017<br>2018<br>2019 | 2<br>2<br>2 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 2<br>2<br>2 |
| TOTALS | 2017<br>2018<br>2019 | 54<br>57<br>58 | 3<br>1<br>3 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 57<br>58<br>61 |

**Table No. 4**
**Status of Company-Owned Outlets**
**For Years 2017 to 2019**

| State | Year | Outlets at Start of Year | Outlets Opened | Outlets Reacquired from Franchisee | Outlets Closed | Outlets Sold to Franchisee | Outlets at End of the Year |
|---|---|---|---|---|---|---|---|
| California | 2017<br>2018<br>2019 | 9<br>8<br>8 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 1<br>0<br>0 | 8<br>8<br>8 |
| TOTALS | 2017<br>2018<br>2019 | 9<br>8<br>8 | 0<br>0<br>0 | 0<br>0<br>0 | 0<br>0<br>0 | 1<br>0<br>0 | 8<br>8<br>8 |

**Table No. 5**
**Projected New Franchised Outlets as of December 31, 2019**

| State | Franchise Agreements Signed But Outlet Not Opened | Projected New Franchised Outlet in the Next Fiscal Year | Projected New Company-Owned Outlet in the Next Fiscal Year |
|---|---|---|---|
| California | 0 | 2 | 0 |
| Nevada | 0 | 0 | 0 |
| Oregon | 0 | 0 | 0 |
| TOTALS | 0 | 2 | 0 |

The name, last known address and telephone number of each franchisee under a Franchise Agreement whose franchise has, within the twelve-month period immediately preceding the effective date of this Disclosure Document ceased to do business pursuant to the Franchise Agreement as a result of termination, cancellation non-renewal or otherwise voluntarily or involuntarily ceased doing business or who has not communicated with the franchisor within 10 weeks of the Disclosure Document issuance date is:

None.

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

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with Pizza Guys. 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.

The names, addresses and telephone numbers of all 69 existing Pizza Guys® stores which are either owned and operated by our franchisees or are owned by our franchisees and are subleased to others and are operated by the sublessee or are owned by RSM, Inc. and are operated by sublessees, are set forth below:

***Pizza Guys®*** #103
6900 65th Street, Suite 5
Sacramento, CA 95823
(916) 422-2222
Owned and operated by
Pizza Guys 65th Inc.

***Pizza Guys®*** #104
2351 Vehicle Drive,
Suite D
Rancho Cordova, CA
95670
(916) 852-6666
Owned and operated by
HBHM, Inc.

***Pizza Guys® #*** 109
612 E. Bidwell Rd,
Ste. B-1
Folsom, CA 95630
(916) 984-6666
Owned and operated by
Hadi Asadisaraui

***Pizza Guys®*** *#111*
505 L Street
Davis, CA 95616
*(530)* 758-8888
Owned and operated by
DSC, Inc.

***Pizza Guys®*** #113
7451 Foothills Blvd.,
Ste 120
Roseville, CA 95670
(916) 773-5555
Owned and operated by
Derek Tyler 2 Inc.

***Pizza Guys®*** #114
5764 Antelope Road,
Ste B-4
Sacramento, CA 95842
(916) 723-6666
Owned and operated by
Slavco, Inc.

***Pizza Guys®*** #115
1000 Lincoln Road, Suite
F
Yuba City, CA 95991
(530) 822-9999
Owned and operated by
YC & VD, Inc.

***Pizza Guys®*** #116
15253 Hesperian Blvd.,
Ste. 2
San Leandro, CA 94578
(510) 481-5555
Owned and operated by
Hafeez, Inc.

***Pizza Guys®*** *#117*
1110 Marshall Road, Suite
E
Vacaville, CA 95687
(707) 452-1200
Owned and operated by
PSSR Inc.

***Pizza Guys®*** #118
6709 Plymouth Road,
Suite B
Stockton, CA 95207
(209) 955-1111
Owned/operated by
Sauman Inc.

***Pizza Guys®*** #119
520 East Yosemite Avenue
Manteca, CA 95336
(209) 239-5555
Owned and operated by
Oudom Rattanachane

***Pizza Guys®*** #122
914 West Lodi Avenue
Lodi, CA 95240
(209) *368-6666*
Owned and operated by
JPPSSR, Inc.

***Pizza Guys®*** #123
1140 East Waterloo Road
Suite 4
Stockton, CA 95205
(209) 944-5555
Owned and operated by
Sauman Inc.

***Pizza Guys®*** #124
1914 N. Texas St.
Fairfield, CA 94533
(707) 425-6666
Owned and operated by
Ajay Kumar

***Pizza Guys®*** #125
4920 Pacific Street, Ste. A
Rocklin, CA 95677
(916) 630-5533
Owned and operated by
Skip LLC

***Pizza Guys®*** #126
4001 Railroad Avenue
Pittsburg, CA 94565
*(925)* 252-9999
Owned and operated by
JMPG, Inc.

***Pizza Guys®*** #127
2255 Tennessee Street,
Suite 3
Vallejo, CA 94591
(707) 557-8888
Owned and operated by
Canh Tran, Inc.

***Pizza Guys®*** #129
3440 McHenry Avenue,
D-10
Modesto, CA 95350
(209) 525-8888
Owned and operated by
PG 2000, Inc.

***Pizza Guys®*** #133
511 N Golden State
Boulevard
Turlock, CA 95380
(209) 656-8888
Owned and operated by
PG 2019, Inc.

***Pizza Guys®*** #135
1100 Sycamore Drive
Antioch, CA 94509
*(925)* 755-1111
Owned and operated by
SDHANJU, Inc.

***Pizza Guys*®** #137
1455 Ary Lane

***Pizza Guys*®** #138
6026-B San Juan Avenue
Citrus Heights, CA 95610
(916) 726-6666
Owned and operated by
PG2003, Inc.

***Pizza Guys*®** #139
1347 S. Winchester Blvd.
San Jose, CA 95128
(408) 871-3333
Owned and operated by
Catley, Inc.

***Pizza Guys*®** #140
3691 Thornton Avenue
Fremont, CA 94536
(510) 857-9444
Owned and operated by
Hafeez, Inc.

***Pizza Guys*®** #141
1919 Salvio Street
Concord, CA 94520
(925) 682-9999
Owned and operated by
Riya Luttra Corp

***Pizza Guys*®** #142
1776 Piner Road
Santa Rosa, CA 95403
(707) 591-8888
Owned and operated by
PG 2008, Inc.

***Pizza Guys*®** #143
1421 Crows Landing Road
Modesto, CA 95351
(209) 491-2222
Owned and operated by
PG2000, Inc.

***Pizza Guys*®** #144
2800 G Street
Merced, CA 95340
(209) 726-8888

Dixon, CA 95620
*(707) 693*-6666
Owned and operated by
Owned and operated by
Swaran Singh

***Pizza Guys*®** #146
1270 W. Henderson Ave.,
Ste. B
Porterville, CA 93257
(559) 781-7777
Owned and operated by
Boundom Phakousonh

***Pizza Guys*®** #147
201 D Street, Ste. B
Marysville, CA 95901
(530) 741-1110
Owned and operated by
Neki, Inc.

***Pizza Guys*®** #149
2471 Cohasset Rd.
Chico, CA 95926
(530) 894-8888
Owned and operated by
Neki, Inc.

***Pizza Guys*®** #151
1545 N. Vasco Rd
Livermore, CA 94551
(925) 371-5555
Owned and operated by
JTN, I

***Pizza Guys*®** #152
3317 Coach Ln, Ste. 300
Cameron Park, CA 95682
(530) 672-1313
Owned and operated by
Pizza Guys Group, Inc.

***Pizza Guys*®** #153
3007 N. Tracy Blvd.
Tracy, CA 95376
(209) 839-1111
Owned and operated by
DR Pizza LLC.

Castraft, Inc.

***Pizza Guys*®** #154
9170 Elk Grove-Florin Rd,
#A
Elk Grove, CA 95624
(916) 685-7777
Owned and operated by
PG2003, Inc.

***Pizza Guys*®** #155
8610 Brentwood Blvd., #H
Brentwood, CA 94513
(925) 634-1414
Owned and operated by
Sauman, Inc.

***Pizza Guys*®** #156
745 S. Highway 65, Ste. F
Lincoln, CA 95648
(916) 543-9999
Owned and operated by
Neki, Inc.

***Pizza Guys*®** #157
3080 Vista Blvd, Ste. 200
Sparks, NV 89436
(775) 626-4444
Owned and operated by
Xfinity Blue Line, LLC

***Pizza Guys*®** #159
801 Oakdale Rd, Ste. A-2
Modesto, CA 95355
(209) 523-2222
Owned and operated by
PG 2000, Inc.

***Pizza Guys*®** #160
4370 Golden Circle Dr,
Ste E
Placerville, CA 95667
(530) 626-8888
Owned and operated by
RNM, Inc.

***Pizza Guys*®** #162
6271 Lone Tree Wy, #F
Brentwood, CA 94513
(925) 626-3888
Owned and operated by
Jarlsle, Inc.

***Pizza Guys*®** #163
1837 E. Gibson Rd, Ste. G
Woodland, CA 95776
(530) 668-4444
Owned and operated by
DSC, Inc.

***Pizza Guys*®** #165
640 Carol Dr., #104
Galt, CA 95632
(209) 744-5555
Owned and operated by
Davis Tran

***Pizza Guys*®** #167
1548 Newall Ave
Walnut Creek, CA 94596
(925) 934-5555
Owned and operated by
Riya Luthra Corp.

***Pizza Guys*®** #169
6500 Hembree Ln, Ste.
202
Windsor, CA 95492
(707) 836-9999
Owned and operated by
PG 2008, Inc.

***Pizza Guys*®** #170
4000 Pimlico Dr, Ste. 110
Pleasanton, CA 94588
(925) 227-1111
Owned and operated by
Sauman Inc.

***Pizza Guys*®** #171
3000 Jefferson St
Napa, CA 94558
(707) 251-5555
Owned and operated by
DSC, Inc.

***Pizza Guys*®** #172
3522 Foothill Blvd
Oakland, CA 94605
(510) 533-2222
Owned and operated by
Taste Factory, Inc.

***Pizza Guys*®** #174
15370 Bear Valley Rd, #1
Victorville, CA 92395
(760) 843-1022
Owned and operated by
Osh Investment Inc.

***Pizza Guys*®** #176
501 A San Pablo Towne
Center
San Pablo, CA 94806
(510) 215-5555
Owned and operated by
A&L Bhandal, Inc.

***Pizza Guys*®** #177
64 NE Division St.
Gresham, OR 97030
(503) 465-2929
Owned and operated by
VKS, Inc.

***Pizza Guys*®** #178
1458 NE 122nd Ave.
Portland, OR 97230
(503) 255-2222
Owned and operated by
VKS, Inc.

***Pizza Guys*®** #179
121 Hartz Ave, #125
Danville, CA 94526
(925) 837-3500
Owned and operated by
Mandeep Bhandal

***Pizza Guys*®** #180
1610 Robb Dr., Ste. D-2
Reno, NV 89523
(775) 787-6666
Owned and operated by
K&J Brothers Corp.

***Pizza Guys*®** #181
24456 Mission Blvd.
Hayward, CA 94544
(510) 886-5100
Owned and operated by
Sai Baba Kirpa Inc.

***Pizza Guys*®** #182
701 Sonoma Mtn Pkwy,
B-4
Petaluma, CA 94954
(707) 778-2222
Owned and operated by
Jose Tiongson Jr.

***Pizza Guys*®** #183
1998 Homestead Rd #101
Santa Clara, CA 95050
(669) 213-1111
Owned and operated by
PPTN, Inc.

***Pizza Guys*®** #184
8710 19th St, Suite 100
Rancho Cucamonga, CA
91701
(909) 381-4747
Owned and operated by
Farah Ikbal

***Pizza Guys*®** #185
18975 Bear Valley Rd #4
Apple Valley, CA 92308
(760) 493-9333
Owned and operated by
Suzyana Salleh

***Pizza Guys*®** #186
325 W. Olive Ave.
Madera, CA 93637
(559) 330-2111
Owned and operated by
Tanmay Pizza Inc.

***Pizza Guys®*** #187
3950 N. Tenaya Way, Ste.
150, Las Vegas, NV 89129

(702) 395-5244
Owned and operated by
K&J Brothers Corp.

Our affiliate, RSM, Inc., owns and operates 8 ***Pizza Guys®*** stores. The addresses of these ***Pizza Guys®*** stores which are owned and operated by RSM, Inc., our affiliate, are set forth below. We have treated them as "company owned" stores for purposes of the tables set forth above, however, these stores are not technically "company owned" stores since they are not owned or operated by us but are owned and operated by our affiliate, RSM, Inc. (Note: Information regarding the franchise may be obtained from the franchisees listed above or from Shahpour Nejad, our president, at our corporate headquarters at (916) 852-4126 and cannot be obtained from the stores listed below.)

***Pizza Guys®*** #101
1310 Fulton Ave, Ste. A
Sacramento, CA 95825
(916)483-4444
Owned and operated by
RSM, Inc.

***Pizza Guys®*** #102
1620 W El Camino Ave
Ste 160
Sacramento, CA 95833
(916) 925-4444
Owned by
RSM, Inc. and sublease by
James Berry

***Pizza Guys®*** #105
7600 Greenhaven Drive,
Suite 2
Sacramento, CA 95831
(916) 429-1111
Owned and operated by
RSM, Inc.

***Pizza Guys®*** #107
3675 J Street
Sacramento, CA 95816
(916) 451-2222
Owned and operated by
RSM, Inc.

***Pizza Guys®*** #108
9105 Bruceville Rd., Ste. 9
Elk Grove, CA 95758
(916) 478-8888
Owned and operated by
RSM, Inc.

***Pizza Guys®*** #110
8399 Folsom Blvd., Ste. 3
Sacramento, CA 95826
(916)388-1111
Owned and operated by
RSM, Inc.

***Pizza Guys®*** #112
800 Harbor Boulevard
West Sacramento, CA
95691
(916) 372-2222
Owned and operated by
RSM, Inc.

***Pizza Guys®*** #161
2820 Del Paso Rd,
Ste. 100
Sacramento, CA 95834
(916) 419-6666
Owned and operated by
RSM, Inc.

There are no trademark-specific franchisee organization associated with the franchise system being offered. There are no franchisees that have been created, sponsored, or endorsed by us. There are no franchisees incorporated or otherwise organized under state law that have asked us to be included in our disclosure document during the next fiscal year.

## ITEM 21. FINANCIAL STATEMENTS

The Audited Balance Sheet and the related Income Statement for the years ending December 31, 2019, 2018 and 2017 are attached hereto as Exhibit 2.

Our fiscal year end is December 31.

## ITEM 22. CONTRACTS

The following contracts for use in this state are attached hereto as exhibits:

| | *Exhibit* |
|---|---|
| Franchise Agreement | 1 |
| Multi-Unit Development Agreement | 2 |
| Preauthorized Bank Deduction Procedure | 5 |
| Telephone Number Lease | 6 |
| Transfer Addendum | 7 |

## ITEM 23. RECEIPTS

You must acknowledge receipt of this franchise Disclosure Document by signing the receipt, the last page hereto.

# EXHIBIT 1

# FRANCHISE AGREEMENT

**PIZZA GUYS**
**FRANCHISE AGREEMENT**

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ATTACHMENTS:

A UNCONDITIONAL, IRREVOCABLE GUARANTY

# *Pizza Guys*® FRANCHISE AGREEMENT

(WITH PERSONAL GUARANTEE)

This AGREEMENT is made this _____day of _____, 20_____by and between

**FRANCHISOR:** *and* **FRANCHISEE:**

PIZZA GUYS FRANCHISES, INC.
2731 Citrus Road, Ste. A
Rancho Cordova, California 95742
(916) 852-2222

_____
(*Name)*
_____
*(Address)*

_____
*(City State Zip Code)*
_____
*(Telephone No. w/Area Code)*

**ACKNOWLEDGMENTS**

Pizza Guys Franchises, Inc. franchises others the right to serve our limited menu of foods and beverages prepared according to our recipes, at one takeout and delivery only pizza store operated under the *Pizza Guys*® trade name, trademark and other commercial symbols according to our procedures, all of which we have developed and will continue to develop (referred to as the "franchise" or the "franchise system" as the context requires). To simplify language in this Agreement, "Pizza Guys Franchises, Inc." will generally be referred to as "us," "we" or "our" (and sometimes as "Franchisor"), and "you" and "your" (and sometimes "Franchisee") will mean you, a person to whom we grant a franchise.

You desire to engage in the takeout and delivery only pizza business in the jurisdiction in which the store will be located. You have investigated the franchise system, the approved goods and services, the demand for such goods, and the applicable laws in the jurisdiction in which your store is to be located. You acknowledge our ownership of the franchise system and that the information received by you from us and our representatives, is our creation, was expensive to develop, is confidential and constitutes our trade secrets. You desire to operate a *Pizza Guys*® store at the location specified herein using our marks, recipes, decor, marketing, methods and procedures in compliance with our franchise system and to obtain the benefit of the reputation and goodwill associated with our *Pizza Guys*® name.

You acknowledge and agree that neither we nor any of our affiliates , representatives, agents or employees have made any oral, written or visual representation of actual or potential sales, earnings, net or gross profits or other earnings claims. You also acknowledge that your success depends primarily upon your personal efforts and abilities as an independent businessperson and that our sale of a franchise to you does not guarantee success and that your store to be operated under this Agreement may lose money or even fail.

You acknowledge and are estopped to deny that you have received a copy of this Agreement and the franchise offering circular with all exhibits attached at the first personal meeting to discuss the franchise; or, at least fourteen business days before you (1) sign a binding agreement with us, or (2) make a payment to Franchisor in connection with the proposed franchise sale, whichever occurs first; and that you have read this Agreement and the franchise offering circular and all exhibits, and that we gave you the opportunity to clarify provisions you did not understand, and you consulted with a professional advisor prior to signing.

**ACKNOWLEDGING THE TRUTH OF THE FOREGOING, you and we agree as follows:**

## ARTICLE 1: GRANT, LOCATION & EXCLUSIVE AREA

**1.0l Grant**. We hereby grant you upon receipt of this signed Agreement and payment in full of the Franchise Fee (see *Section* 6.01(a)) and you accept from us a franchise consisting of the right to operate one *Pizza Guys*® store at the location specified herein using our marks, recipes, decor, marketing, methods and procedures in compliance with our franchise system operated under the *Pizza Guys*® trade name, trademark and other commercial symbols, all of which we have developed and will continue to develop (referred to as the "franchise" or the "franchise system" as the context requires). Pizza Guys franchisees who are qualified to open multiple locations are given the option to open more than one location within an approved area and specific timeline. The approved area and timeline are negotiated on a case by case basis depending in part on the qualifications of the Franchisee. Your receipt of this Agreement signed by a representative of Franchisor is acknowledgment of our approval of you in the franchise system.

**1.02 Location.** Your franchise is limited to one address only (the "store premises"). Following is the franchise number *and* a description of the <u>general area</u> in which your store shall be located. The <u>exact address</u> of your store premises shall be inserted below when known.

_____ _____ _____/_____
(franchise #) (General Area) (initials)

_____ _____/_____
(Exact Address of the Store) (initials)

**1.03 Exclusive Area.** We have not established and will not establish another franchised or company- or affiliate-owned store selling pizza to the general public under the *Pizza Guys*® trade name or under a different trade name or service mark within a two (2) mile radius of your store (the "Exclusive Area") excepting situations where a natural or artificial condition is an impediment to travel such as freeways, rivers and the like, in which case we may establish another franchised or company-owned store selling pizza within your Exclusive Area. Notwithstanding the Exclusive Area, you and other franchisees may serve walk-in customers from any area and deliver to call-in customers in any area. You may distribute door hangers, flyers, coupons and other forms of promotion which advertise only your store (instead of a list of areas *Pizza Guys*® stores) only within your Exclusive Area. You may not directly solicit customers outside of the Exclusive Area without our permission. "Direct solicitation" includes, but is not limited to, solicitation in person, by telephone, by mail, through the Internet, social media, email or other electronic means, and by distribution of brochures, business cards or other materials. If any direct solicitation of customers within the Exclusive Area is in media that will or may reach a significant number of persons outside of the Exclusive Area, you must notify us in advance and obtain our consent. You release, indemnify and agree to defend us, our affiliates and representatives from and against any obligation, loss, liability or damage caused by or related to your advertising alone or with the advertising of other *Pizza Guys*® stores. See *Section 5.01(c).*

## ARTICLE 2: STORE PREMISES

**2.01 Premises Selection.** You shall locate and propose to us, premises suitable for use as your *Pizza Guys*® store in the general area described in *Section 1.02,* above, but you shall not enter into any negotiations with the lessor of the proposed premises. In the event that we approve of the proposed premises for use as your *Pizza Guys*® store, we or our representatives shall negotiate with the lessor of the proposed premises for acceptable terms of lease. You may not lease the premises without our prior approval. If the proposed lease terms are acceptable to us and you, we may in our sole and absolute discretion permit you to lease the premises directly from the landlord. In the event we disapprove or fail to approve of the premises or the lease terms, you shall locate and propose to us other premises suitable for use as your *Pizza Guys*® store. Our designation, approval, disapproval, failure to disapprove your lease of the premises shall not constitute our warranty or guarantee of successful or unsuccessful store operations at that location or that the lease of the premises will be renewed, and you release, indemnify and agree to defend us, our affiliates and representatives from and against any obligation, loss, liability or damage caused by, or related to, the same.

**2.02 Design and Construction.** After you have leased the store premises, we will provide you with our general plans and specifications for the design, decor, equipment and furnishings layout, signage and other incidents of a typical *Pizza Guys*® store. (We will not provide energy calculations or plans or specifications for electrical, plumbing, sewer or mechanical systems or compliance with the Americans with Disabilities Act, state disabled person's laws, or other similar laws or regulations). You shall bear the entire cost of adapting our general plans and specifications to the particular circumstances of your store premises including, but not limited to, the employment of an architect, engineer or other consultants as necessary.

You shall not contract for or commence construction of the store without first obtaining our written approval of all plans and specifications as adapted.

You shall procure certain architectural, engineering, design, construction or other services or materials only from us, our affiliates or other designated source, some services and materials only from among a list of approved service or material suppliers, and other services and materials from any service or material supplier so long as the service or material meets our standards and specifications as revised from time to time. Our designation, approval, disapproval or failure to disapprove of the store's design or construction or of a service or material provider or of the terms of the service or materials contract, or of the services or materials provided shall not constitute our warranty or guarantee of such person's solvency or the quality or safety of such person's services or materials or the fairness of such person's contract, and you release, indemnify and agree to defend us from and against any obligation, loss, liability or damage caused by, or related to, the same. You shall not hold us liable for the design or construction of your store or any delay in the design or construction of your store.

You are required to use a construction coordinator approved by us. You shall bear the entire cost of constructing your store premises including, but not limited to, payment of all material and service providers, consultation fees to independent contractor(s) and fees and permits of government agencies. Prior to the commencement of construction, you shall provide us the names and addresses of all architects, engineers, designers, contractors, laborers or other service or material providers so that we may deliver Notices of Nonresponsibility thereto. All government permits and contracts with service or material providers shall be made between you and the applicable government agency or service or material provider. The collection of any credit or payment offered by the lessor for construction or improvement of the premises ("tenant allowances") shall be the sole responsibility of you, and you release, indemnify and agree to defend us, our affiliates and representatives from and against any obligation, loss, liability or damage caused by, or related to the same.

You shall commence construction within forty-five (45) days of delivery of your store premises or within such earlier period set forth in the store premises lease as and you shall complete construction and open for business within one (1) year of the date of this Agreement, or we may terminate your franchise pursuant to *Section 11.01* retaining all fees paid and all improvements made by you. You shall not open for business until we or our representatives have approved your store as built.

**2.03 Fixtures, Furnishings and Equipment.** After you have leased the store premises, we shall provide you with our fixtures, furnishings and equipment list. You shall fixture, furnish, equip and decorate your store in accordance with our standards and specifications as revised from time to time. Depending upon the item, you shall purchase certain fixtures, furnishings, equipment and other goods only from us, our affiliates or other designated source, some items only from among a list of approved suppliers, and other items from any supplier so long as the items meet our standards and specifications as revised from time to time. You must have a conveyor oven, hood and ventilation system, mixer, pizza preparation table, cut table, vegetable dicer and slicer, dough sheeter, freezer, safe, walk-in refrigerator, dry storage

shelving, pizza warmer holding cabinet, counter tops, cabinetry, as well as other equipment and furnishings on the store premises in order to operate the premises as a *Pizza Guys*® store. You are required to have a computer utilizing POS System which must be approved by Franchisor. You are required to participate in online ordering and any future programs such as texting orders that we may introduce. You are required to have a working facsimile machine at your store at all times. You are required to have a high speed internet connection. You are required to notify us prior to changing your internet provider. You are required to utilize *Pizza Guys*® Message on Hold System. Our designation, approval, disapproval or failure to disapprove of a source or supplier shall not constitute our warranty or guarantee of the source's or supplier's solvency or the quality of the source's or supplier's goods, and you release, indemnify and agree to defend us, or affiliates and representatives from and against any obligation, loss, liability or damage caused by, or related to, the same.

Your franchise computer system must meet or exceed our minimum requirements, as periodically specified by us, which requirements will be updated from time to time according to changing technology and industry standards. When you purchase and install the POS System, you bear all related costs. The initial computer system is included in the Initial Investment. We will have independent access to the information and data maintained in your business computer system. There are no contractual limitations on our right to access the information and data contained therein.

You may obtain your computer hardware and POS system from a supplier approved by us. You must upgrade it as we specify at our or our approved suppliers' then current prices for the upgraded equipment or software. There are no contractual limitations on the frequency and cost of the upgrades.

There may be additional costs of the chosen computer system attributable to optional or required maintenance and support contracts and upgrades and updates. We may, but currently do not, require you to utilize any maintenance or support services for the computer system. You must ensure all programs and applications running on your computer system are legally licensed.

You must keep all your cash registers and computer system in good operable repair, at your expense, and you must promptly install additions, changes, modifications, substitutions and replacements to the cash register and computer system as we may reasonably require. You will have the sole and complete responsibility for: (a) acquiring, operating, maintaining and upgrading your own cash register and computer system; (b) the manner in which your cash register and computer system interface with our computer systems, if any, and the computer systems of third parties; and (c) all consequences that may arise if your cash register and computer system is not properly operated, maintained and upgraded.

Neither we, our affiliates, nor a third party has a contractual right or obligation to provide ongoing maintenance, repairs or upgrades for your computer system or related items. However, we will provide you with continuing guidance on the necessity for upgrades, all of which you must complete at your own cost.

You may not maintain customer's credit card numbers on file in the POS.

We will pay up to 50% of the total cost should you decide to purchase a car wrap. Your car wrap design must be pre-approved by Franchisor.

**2.04 Telephone Number Lease.** You shall enter into a *Telephone Number Lease* with us which provides that you will lease the main telephone number for your store from us (the "main telephone number"). We will retain ownership of all telephone numbers (lines) including, but not limited to, the main telephone number (1st line), which shall be restricted to receive calls only (or, if such feature is unavailable, to receive calls but restricted to place local calls only). The main telephone number shall be the one (1) and only telephone number used to advertise the store. You may not advertise materials with your telephone number out of your two (2) mile radius. You may install additional telephone number(s) to place and receive local and long distance calls but you may not use such telephone number(s) to advertise the store. We have the absolute right to select and change, at any time, the telephone company which will provide the main telephone number to the premises. You specifically authorize us to redirect the main telephone number to another location from which we or another franchisee may serve persons in your Exclusive Area if you fail to comply with the franchise system. You shall also pay the telephone company and/or vendor(s), as directed, according to the terms of our *Telephone Number Lease.*

**2.05 "As Built" Plans.** Upon completion of any construction, fixturing, furnishing or remodeling, you shall provide us with a copy of the drawings, plans and specifications revised to show your store premises as actually built or remodeled and all equipment, furnishings and other improvements as actually built or remodeled and all equipment, furnishings and other improvements as actually installed thereon ("as built" plans). Thereafter, you shall not alter your store premises exterior, interior, floor plan, lighting, seating, signage, equipment, furnishings, fixtures or other items without our prior written consent. You shall bear the entire cost of preparing and delivering the as built plans.

**2.06 Remodeling and Re-equipping.** Upon our written notice and as a condition of transfer or renewal/extension, you shall promptly remodel, re-equip, redecorate or otherwise update your store premises exterior, interior, floor plan, lighting, seating, signage, equipment, furnishings, fixtures or other items to our standards so as to comply with our plans and specifications as revised from time to time. Re-equipping shall include, but not be limited to, the installation of new or additional ovens or appliances, point-of-sale, inventory control, electronic reporting and other computer or store equipment as we deem advisable from time to time. If you do not undertake efforts to correct deficiencies in your Store's appearance promptly after we notify you of the deficiencies, then we can undertake the repairs and you must reimburse our costs.

## ARTICLE 3: INITIAL TRAINING PROGRAM, STORE OPERATIONS MANUAL, AND ONGOING CONSULTATION

**3.01 Initial Training Program; Additional Training.** Prior to the opening of your

store, we or our representatives shall train at least one (1) person signing this Agreement or your general manager at a location selected by us ("Phase I"). Phase 1 training will continue until at least one person signing this Agreement or your general manager is certified by Franchisor. After the opening of your store, we or our representatives shall train such person or general manager at your store for an additional five (5) days, eight (8) hours per day ("Phase II"). (We may require and you may request that every person signing this Agreement and your general manager complete our Initial Training Program.) The foregoing shall be collectively referred to as our "Initial Training Program." You or your general manager must personally attend the Initial Training Program and you must bear your and your general manager's travel, lodging, meals or other expenses, if any. We shall pay for the travel, lodging, meals or other expenses of our personnel for the duration of the Initial Training Program only. Training program participants are not paid for their labor. You acknowledge that we will not be held liable if you or your manager(s) were to get injured in part or wholly due to your/their own negligence. You agree and acknowledge that you will or have insurance covering such liability and will provide copies of such policy upon our reasonable request. You release, indemnify and agree to defend us, our affiliates and representatives from and against any obligation, loss, liability or damage caused by or related to your or your manager(s) own negligence during the Initial Training Program. You shall not open for business until at least one (1) person signing this Agreement or your general manager have successfully completed Phase I of our Initial Training Program. You are responsible for training your employees. If you believe that our Initial Training Program is not adequate for you or for the particular circumstances of your store, additional training at your store may be purchased from us for the actual cost of travel, meals and lodging plus $100 per day. You must make your request for additional training to us in writing and pre-pay for the same before we will schedule additional training. If you want your employees/managers trained by us, we will do so for the actual cost of travel, meals and lodging plus $250 per day. Each employee must be certified for each position they provide services for. *For Transfers:* The seller of an existing *Pizza Guys*® store must personally provide the Phase I initial training to the buyer(s) prior to close of escrow. We have no obligation to provide Phase I initial training to the buyer(s) but will provide the Phase II initial training to the buyer(s) after close of escrow if required. Also, if we are not satisfied with the Phase I initial training by you to buyer, we, in our sole discretion, have the right to make the buyer go through Phase I training again. We may, but are not required to, offer additional training courses and/or refresher courses to you. We reserve the right to require you to attend or to otherwise participate in such additional training. You must pay all transportation, lodging, and other expenses incurred in attending such additional training courses.

**3.02 Store Operations Manual.** The *Pizza Guys*® store operations manual *("Store Operations Manual")* contains information relating to the operation of your store in compliance with the franchise system. Our *Store Operations Manual* is designed to ensure uniform and high standards of quality, service and appearance among all *Pizza Guys*® stores in order to create and maintain goodwill and widespread recognition and acceptance of the *Pizza Guys*® pizza store chain. During the Initial Training Program, we shall provide you with the then current edition of our *Store Operations Manual.* Our *Store Operations Manual,* as revised by us from time to time, is incorporated in this Agreement by reference and you are bound to it as though it were reprinted herein. In the event of any conflict between the terms of our *Store Operations Manual* and this Agreement, the terms of this Agreement shall prevail.

**3.03 Ongoing Consultation**. After the Initial Training Program, we or our representatives will be available for consultation with you concerning the ongoing operation of the store.

## ARTICLE 4: STORE OPERATIONS

**4.01 Store Operations**. In addition to requirements set forth elsewhere herein, you shall operate your store as follows:

**(a) Compliance with the Franchise System.** You agree to operate your store in compliance with the franchise system.

**(b) Approved Food, Beverages and Merchandise Only.** You agree to serve and sell *only* the food, beverages and merchandise (referred to as "goods and services") approved by us from time to time and to prepare the same according to our recipes, methods and procedures as revised by us from time to time, and to serve or sell no goods or services of any kind. All Franchisees are required to sell and accept Pizza Guys gift cards. The monthly fee will be deducted electronically by Franchisor at the first of the month. Menus may vary from region to region. In particular, alcoholic beverages may not be served or sold without our prior written consent which consent may be withheld in our sole and absolute discretion. As the market changes and as our experience increases, we may, but are not obligated to, add to, delete from and/or revise the approved goods and services which you shall offer and there are no limitations on our right to make such additions, deletions or changes. In such event, you are obligated to offer and sell such additional goods and services and not to offer or sell deleted goods or services. Such additional or deleted goods and services will be considered a unilateral modification of this franchise made in compliance with *Section 15.08.*

**(c) Prices.** You shall determine the prices you charge your customers for all goods and services. You are not required to participate in special promotional programs. If you choose to participate in special promotional programs you are required to participate for the entire duration of the program and you shall charge customers the exact amount of the promotional price for the duration of the special promotional program. If you do not want to participate in special promotional programs offered from time to time, you must notify us in advance.

**(d) Inventory.** You shall use and stock the foods, beverages, ingredients, condiments, containers, napkins, paper goods, packaging and other serviceware ("inventory") as we approve from time to time and to use or stock no other inventory without our prior written consent. You shall maintain sufficient inventory of approved items to meet customer demand. Depending upon the item, you shall purchase certain items of inventory only from us, our affiliates or other designated source, some items only from among a list of approved suppliers, and other items from any supplier so long as such items meet our standards and specifications as revised from time to time. Our designation, approval, disapproval or failure to disapprove of an inventory source or supplier shall not constitute our warranty or guarantee of the source's or supplier's solvency or the quality of the source's or supplier's inventory, and you release, indemnify and agree to defend us from and against any obligation, loss, liability or damage caused by, or related to, the same.

**(e) Delivery.** You shall deliver approved food, beverages and merchandise to locations within your Exclusive Area. You may, but are not required to, deliver approved food, beverages and merchandise outside your Exclusive Area.

**(f) Your Personal Participation.** You represent and warrant that you: (1) do now and shall, for the franchise term and any renewal/extension term, continue to live in the locality of your store; (2) shall be personally present daily at your store and shall personally devote your full-time best efforts to the day-to-day operations of your store; (3) will attend all mandatory quarterly franchise and advertising meetings; (4) do now own and during the franchise term and any renewal/extension term shall continue to own, the entire equity interest in this Agreement, in the business of your store and in its income, except only as otherwise permitted by this Agreement; and (5) do not have any undisclosed partnerships and any undisclosed partnerships or other agreement to share profits is void ab initio. Your failure to attend a mandatory meeting on the first instance will result in an oral warning, the second instance will result in a written warning, and the third instance will be grounds for termination of the Franchise Agreement.

**(g) Personnel and Uniforms.** You shall employ trained personnel in sufficient numbers so as to operate your store at maximum efficiency with sufficient staff at all times. You shall be solely responsible for payment of wages, workers compensation insurance, payroll taxes and any other taxes or payments due to the federal, state or other governmental authorities with respect to said personnel. You shall cause all employees to: (1) wear uniforms or clothing of such color, design and other specifications as we may prescribe from time to time, (2) present a neat and clean appearance, and (3) render competent and courteous service to customers.

**(h) Restrictions on Personnel.** You must restrict your store's employees from directly or indirectly, engaging in, acquiring any financial or beneficial interest in (including interests in corporations, partnerships or trusts, limited liability companies, unincorporated associations and joint ventures), or be employed by, or be a consultant to, or lessor for, any company which is similar to a *Pizza Guys*® store or sells pizza in the same fashion that you are restricted by *Article 8.* You must also restrict your store's employees from disclosing or appropriating the customer list, our recipes, copyrights and trade secrets or proprietary information in the same fashion that you are restricted by *Section 7.04.* You must also require your employees to promptly disclose and to assign to us all ideas, improvements and materials (including but not limited to advertising artwork and promotional materials), whether patentable, copyrightable or not, relating to the services provided at, or the operation of; your store in the same fashion that you are required by *Section 7.05.*

**(i) Hours of Operation.** You shall operate your store seven (7) days per week throughout the year during the hours we prescribe from time to time, except for a reasonable time necessary to reconstruct due to tire or other casualty.

**(j) Quality, Service and Cleanliness.** You shall operate your store in a clean, wholesome manner and in compliance with standards of quality, service and cleanliness prescribed by us from time to time. You shall, at your sole expense, have a licensed pest control service visit your store at least one time per month. You must produce evidence of inspection

and inform us of any issues within 24 hours when requested by us.

**(k) Maintenance of Store Premises, Equipment and Furnishings; Decor.** You shall maintain your store premises exterior and interior, lighting, seating, signage, equipment, furnishings, fixtures and other items in excellent working condition and in a neat, clean and wholesome appearance in conformity with the decor scheme for your store prescribed by us from time to time. You agree to replace, at your sole expense, items which become obsolete, out of date or otherwise in need of replacement with items meeting our then current standards, specifications and decor.

**(l) Parking.** Regardless of the terms of your store premises lease, you shall ensure that the parking area in the immediate vicinity of your store is kept in a neat and clean manner.

**(m) Vending, Video Machines, Etc.** Pay telephones, newspaper and magazine racks, jukeboxes, gum machines, games, rides, or vending or video machines shall not be installed on the premises without our prior written consent.

**(n) Signs.** You shall maintain and display signs of the color, size and design in the locations specified by us from time to time. You shall not place additional signs, posters or art on your store premises without our prior written consent. You shall not place "For Sale" or similar signs on, in, or in the general vicinity of your store or use any words in any advertisement denoting that a *Pizza Guys*® store is the subject of a proposed sale.

**(o) Compliance with Store Operations Manual.** You agree to operate your store in compliance with our *Store Operations Manual* as revised by us from time to time. If we determine that you are not operating your store in compliance with our Store Operations Manual, we, in our sole discretion, have the right to make you go through Phase I training again, and will do so for the actual cost of travel, meals and lodging plus $250 per day.

**(p) Compliance with Store Premises Lease, Telephone Number Lease, Preauthorized Bank Deduction Procedure, and Other Agreements.** Your store premises lease, *Telephone Number Lease, Pre-authorized Bank Deduction Procedure* and any other agreement between us and you are hereby incorporated in this Agreement by reference and you are bound to them as though they were reprinted herein and you hereby agree that your breach of any of them shall constitute a "failure of you to comply with a lawful requirement of the franchise" within the meaning of *Articles 10 and 11* and a breach of this Agreement.

**(q) Compliance with Laws.** You shall, at your sole expense, comply with all federal, state and local laws, ordinances and regulations affecting the store or its operations and shall obtain and keep in force all permits, licenses or other consents required for the construction, maintenance or operation of your store.

**(r) Payment of Taxes.** You shall pay when due, all taxes imposed on the store premises, its improvements, fixtures, furnishings and equipment, all payroll and other taxes imposed with respect to persons working at your store, and all sales and business taxes applicable to all sales or business conducted at or from the store.

**(s) Utilities.** You shall pay all charges for water, gas, telephone, electricity, trash pickup, utilities and other services incurred at or in the operation of the store.

**(t) Fiscal Responsibility.** You shall pay promptly when due or earlier (see below), all costs of constructing, maintaining and operating your store including, but not limited to, those due us, our affiliates, employees, contractors, materialmen, equipment lessors, suppliers and vendors, advertisers, a national, regional or local advertising or franchisee committee, all applicable federal, state and local governmental authorities, and all charges for water, gas, telephone, electricity, trash pickup and utility and service bills incurred in the operation of the store. Warning: Early Payment Required for Certain Vendors: Even if your produce, food or beverage vendor(s) or your advertiser(s) give you more time to pay, you shall pay your produce vendor(s) according to their payment terms but in no event later than thirty (30) days of their invoice and advertisers and all other food and beverage vendors according to their payment terms but in no event later than fifteen (15) days of their invoice. We want our franchisees to develop the reputation among produce, food and beverage vendor(s) and advertiser(s) for early payment. This may allow us to negotiate good prices for from such vendors for all our franchisees. Accordingly, we will consider your failure to make early payment to produce, food and beverage vendor(s) and your advertiser(s) to constitute "conduct which reflects materially and unfavorably upon the operation and reputation of the franchised business or the *Pizza Guys*® chain" and, accordingly, grounds for immediate termination without opportunity to cure within the meaning of *Section 11.02(d)*.

**(u) Customer Loyalty Program**. We currently do not offer loyalty cards; however, upon written notice from us that we will begin offering loyalty cards, you shall sell or otherwise issue loyalty cards that have been prepared utilizing the standard form loyalty card ("Loyalty Cards") provided by us, and only in the manner specified by us in the Store Operations Manual or otherwise in writing. You shall fully honor all Loyalty Cards that are in the form provided or approved by us regardless of whether a Loyalty Card was issued by you or another franchisee.

You shall sell, issue, and redeem (without any offset against any Royalty Fees) Loyalty Cards in accordance with procedures and policies we specify in the Store Operations Manual or otherwise in writing.

Upon implementing a loyalty program, you will pay us an ongoing monthly fee as stated in the Store Operations Manual or otherwise in writing for each store ("Program Fee") to install and maintain the Customer Loyalty Program. You will pay us our then current fee for each dollar ($1) spent for a transaction when a Loyalty Card is presented. The customer's Loyalty Card will accrue one (1) point for each dollar ($1) spent at a *Pizza Guys*® business. We will reimburse you two and one-half cents ($.025) for each point that a customer redeems at your *Pizza Guys*® business. A weekly reconciliation will be performed between the points accrued and redeemed at each *Pizza Guys*® business and the net difference will be charged or credited to your account. We reserve the right to alter the terms and conditions of any customer loyalty program, including reserving the right to apply changes retroactively to benefits already accrued under such programs.

**4.02 Proof of Compliance.** You shall permit us, our representatives, accountants, attorneys and other agents to inspect your store premises at any time during regular business

hours, without notice, and to observe all aspects of the business and you shall furnish us with such evidence as we may request from time to time for the purpose of determining your compliance with the franchise system. If we determine that you are not in compliance with the franchise system, we will provide you with written notice thereof and you will have thirty (30) days to provide evidence of compliance. Upon reinspection, if needed, you agree to pay us for such reinspection at the rate of $250 per day plus actual cost of travel, meals and lodging.

**ARTICLE 5: ADVERTISING**

**5.01 Advertising.** Each month you shall advertise your store using only approved advertising disseminated only in approved media. *(For instance,* you may not create your own Internet website but must advertise on our website.) You may not have a web domain that includes the "Pizza Guys" name in it. For the first six (6) months your store is open, we will plan and budget the minimum amount of advertising of your store. However, you may spend more than what we recommend.

**(a) Grand Opening Ceremony Day.** We estimate that your opening day ceremony costs will be approximately $6,000. Opening day elements include franchise company store managers to cover staffing and experience gaps, sign dancer, DJ, prize booth operator, free box kits, 500 free large pizza give away. Franchisor will provide project management of grand opening ceremony, coordination of Chamber of Commerce ribbon cutting, pre-opening audit, box distribution coordination (including vehicles for distribution), on-site senior management, balloons, use of prize tent, prize wheel and signage, and event day store management by senior corporate management. While you are not required to have a grand opening ceremony, it is recommended.

**(b) Initial Advertising.** You may find it advisable to expend up to $7,500 each month for the first six (6) months your store is open to advertise the opening of your store. For new stores and transferred stores, you must expend a minimum of $5,500 each month for the first six (6) months your store is open to advertise the opening of your store.

**(c) Minimum Monthly Advertising Expenditure.** You are required to spend on advertising a minimum of 7% of net sales or $5,500, whichever is less.

Advertising expenses are paid to third parties not to us. Proof of your Minimum Monthly Advertising Expenditure must be submitted with your Monthly Advertising Report (see *Section 6. 05(b)).* We retain the right to unilaterally increase the Minimum Monthly Advertising Expenditure in the event that, in our sole opinion, an increase is required to be competitive in the market.

**(d) Advertising Materials; No Advertising Fund.** We will provide an approved format for you to promote your *Pizza Guys*® store, however, we have not established an advertising fund and we are not required to advertise or otherwise increase recognition of and goodwill toward the *Pizza Guys*® chain.

**(e) Social media, website hosting, ad words, etc**. We, our one of our affiliates will provide support for website hosting and updates, email hosting, electronic mail marketing, and Google® adwords management. You will pay us our then-current monthly fee for

these services at the same time, and in the same manner, as your Weekly Franchise Fee. We reserve the right to increase or reduce this fee upon 30-days written notice to you.

(f) **Cooperative Advertising**. When two or more franchised businesses have been established in a Metropolitan Statistical Area (MSA), we may establish an advertising cooperative in that area. If an advertising cooperative has been established in your territory, you are required to participate in the cooperative advertising group. If the group approves by majority an advertising program you must pay for your share of the expense. Although we may not have an advertising cooperative in your area, we may, from time to time, require that you join a specific advertising campaign and we will electronically withdrawal money from your account for the campaign.

## ARTICLE 6: FEES AND FINANCIAL REPORTS

**6.01 Fees.** You shall pay us:

(a) an **Initial Franchise Fee** of $25,000. The Initial Franchise Fee is nonrefundable and you are not entitled to interest thereon. We will defer the payment of the Initial Franchise Fee and all other initial payments until all of our initial pre-opening obligations have been satisfied and until you open your business and it is operating. However, you must execute the Franchise Agreement prior to looking for a site or beginning training; and,

(b) a **Weekly Franchise Fee** of 5% of your store's Gross Sales for each week (as defined by *Section 6.10)* of the franchise term and any renewal/extension term, due on each Wednesday for the previous week. When the end of the month occurs during the preceding week, two (2) reports will be due. One for the end of the month, and one for the week. Should you use a third party online service such as Grubhub, Eat 24, etc., you must notify us of the third party company used and you authorize us to obtain these sales monthly directly from the third party company for the purposes of auditing your Weekly Franchise Fee.

(c) We may offer to waive the Weekly Franchise Fee for a period of up to six (6) months to you if you open a new location. The Weekly Franchise Fee is waived on the new location not your existing location. Such arrangements are negotiated on a case by case basis depending in part on the condition, type and status of your existing operation.

**6.02 Additional Payments.** You shall also pay the telephone company and/or vendor(s) as directed, all payments due under the Telephone Number Lease, and any other payment due under any other agreement between us or our affiliates and you. Additionally, you are required to pay advertisers the **Minimum Monthly Advertising Expenditure** (see *Section 5.01(c),* above). In the event you desire to renew or extend your franchise, you must pay us a **Renewal/Extension** Fee (see *Section 12.02(a),* below). In the event you desire to transfer your franchise, you must pay us a **Transfer Fee** (see *Section 14.01(c),* below).

**6.03 Preauthorized Bank Deduction Procedure.** From time to time as we request, you shall sign all documents necessary to establish and maintain a preauthorized bank deduction procedure whereby your bank is authorized to pay and charge to your account, checks (or other debit entries by electronic or paper means) drawn on your account by and payable to the order of us (or our affiliates or representatives, or a national, regional or local franchise advertising

committee or campaign, as we shall from time to time decide) as payment of your Weekly Franchise Fee and any other payment due from you (such as *Telephone Number Lease* rent and advertising campaigns as may be required by us) including electronically deducting any default payments. You shall maintain sufficient funds in the account to assure the timely preauthorized transfer of the appropriate funds and you shall pay to us a reasonable service fee, not less than $25, and all bank charges in the event that sufficient funds are not available to honor such deduction. You shall not cancel such preauthorized bank deduction procedure or close such account and you shall require your bank to provide us (and our affiliates or representative, as the case may be) written notice 30 days in advance of any change to your account which would affect such preauthorized bank deduction procedure. In order to induce your bank to honor this preauthorized bank deduction procedure, you release, indemnify and agree to defend your bank from and against any obligation, loss, liability or damage caused by, or related to, any payment made pursuant to this preauthorized bank deduction procedure;

**6.04 Interest and Late Charges.** Any amount not paid when due, shall bear interest at the rate of 18% per annum or the maximum legal rate in the jurisdiction in which your store is located, whichever is lower, from the date due until paid. Any amount not paid when due, shall bear a late charge of $35 per occurrence. The payment of interest or late charges shall not be deemed to authorize any delay in payment of any amount.

**6.05 Reports.** You shall bear all costs associated with preparing and delivering the following reports to us:

**(a) Wednesday Report.** Franchisor will obtain via its online computer system a written report showing your operations for each week (as defined *by Section 6.09)* of the franchise term and any renewal/extension term by 12:00 p.m. on each Wednesday for the previous week containing such information and prepared and transmitted in such form and manner as we from time to time require. When the end of the month occurs during the preceding week, two (2) reports will be due. One for the end of the month, and one for the week. If there are any complications and Franchisor is unable to obtain sales via online computer system, Franchisor will call you and it will be your responsibility to fax the written report;

**(b) Additional Reports.** You shall prepare and deliver such additional operating, financial and other reports containing such information and prepared and transmitted in such form and manner and at such times as we may from time to time require;

**(c) Failure to Timely or Accurately Report.** In the event that you fail to timely or accurately report your Gross Sales, you authorize us to estimate your Gross Sales and to deduct from your bank account an interim Weekly Franchise Fee subject to subsequent reconciliation. You shall pay all costs incurred by us as a result of your failure to timely or accurately report. There will be a $35.00 late charge fee assessed if you fail to report your weekly sales by noon on Wednesday. If we find that you purposely reported incorrect sales, we will terminate your franchise agreement without the opportunity to cure within the meaning of *Section 11.02(n);*

**6.06 Books and Records.** You shall preserve and keep at the store for at least the preceding five (5) years: all order sheets, customer receipts, Z tapes and other cash register tapes, if any, coupons, electronic data and other records of Gross Sales; all invoices for inventory,

supplies and other goods and services purchased and all other records of business expenses; all reports, summaries, inventory control sheets and other business operations forms; all canceled checks, deposit slips, bank statements and records of any financial institution doing business with your store; all accounting books and records; all business tax returns and worksheets and all personal tax returns and worksheets as they relate to the business; as well as all other books and records of the business.

**6.07 Inspection and Audit.** You shall permit us, our representatives, accountants, attorneys and other agents to inspect and audit without notice during regular business hours your books and records. You also authorize us to audit directly from third party vendors and purveyors. This authorization is continuing and irrevocable. If an inspection or audit discloses that actual Gross Sales exceed your reported Gross Sales, you shall pay us: (a) the additional amount owed, (b) interest on said amount from the date originally due until paid, and (c) if actual Gross Sales exceed your reported Gross Sales by 2% or more, the cost of the inspections and audits which revealed the under-reported sales including, but not limited to, our agents' fees, travel, meals and lodging. Your failure to comply with this paragraph is grounds for immediate termination without opportunity to cure within the meaning of *Section 11.02(o)*.

**6.08 Rebates.** Advertisers, suppliers, including food and beverage suppliers, and other product vendors and service providers provide monetary or in-kind "rebates" to franchisors who designate them as a sole source supplier or who recommend or approve them as an authorized supplier. You agree that we have the right to receive and expend such rebates in any manner that we, in our sole and absolute discretion, desire.

**6.09 "Week" Defined.** For purpose of this Article, the term "week" shall consist of a period of seven (7) days as designated by the calendar, but beginning on Monday and ending on Sunday.

**6.10 "Gross Sales" Defined.** "Gross Sales" means all revenue and other compensation, including take-out and delivery, catering, including school lunches, special sales, video game revenue, merchandise sales excluding sales tax, sales from third party ordering services (such as Grubhub, Eat 24, etc.), event sales, derived at or from your business exclusive of authorized "complimentary items" as defined in our *Store Operations Manual* from time to time. Sales for checks or credit shall be treated as received for the full price in the week during which the check is received or the credit extended irrespective of the time when you actually receive payment (whether full or partial) therefor.

## ARTICLE 7: TRADE NAMES, TRADEMARKS, TRADE SECRETS AND COPYRIGHTS

**7.01 Trade Name and Trademark License.** We hold registrations for the following mark(s) on the Principal Register in the United States Patent and Trademark Office ("USPTO") for the following goods and services:

| ***Mark*** | ***Described Goods or Services*** | ***Date of Registration*** | ***USPTO Registration No.*** |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Pizza Guys | For pizza in International Class 30 | Jan. 28, 1997 | 2,034,329 |
| Pizza Guys | Prepared food delivery services in International Class 39 | Dec. 10, 1996 | 2,022,471 |
| Pizza Guys The Better Guys | For pizza in International Class 30 and food delivery services in International Class 39 | June 11, 2002 | 2,578,298 |
| Pizza Guys Real Pizza Real Value | For pizza in International Class 30 | September 25, 2018 | 5,568,672 |
| Pizza Guys A Party in Every Pizza | For pizza in International Class 30 and food delivery services in International Class 39 | August 7, 2018 | 5,533,532 |
| I'm a Pizza Guy | For pizza in International Class 30 and food delivery services in International Class 39 | April 16, 2013 | 4,321,056 |
| Artisan Made Pizza Guys Est. 1986 I'm a Pizza Guy | For pizza in International Class 30 and food delivery services in International Class 39 | March 22, 2016 | 4,922,283 |

In addition to the above registrations, we claim common law ownership of other marks including but not limited to "Superb Pizza." We hereby license you to use, for the duration of the franchise term and any renewal/extension term, the *"Pizza Guys*,®" *"Pizza Guys The Better Guys*®," "Pizza Guys Real Pizza Real Value,®*" "Pizza Guys A Party in Every Pizza* ,®" *"I'm a Pizza Guy, ®" or Artisan Made Pizza Guys Est. 1986 I'm a Pizza Guy ®"* marks and such other trade names, trademarks, service marks, signage and logos as we require you to use from time to time (the "marks") but only so long as you use the same solely to operate your store in compliance with the franchise system and for no other purpose. You shall follow our rules when you use our marks and you shall not use any trade name, trademark, service mark or logo which we have not required you to use.

7.02 **Trade Secrets and Copyright License.** We hereby license you to use, for the duration of the franchise term and any renewal/extension term, the trade secrets and copyrights as we require you to use from time to time but only so long as you use the same solely to operate your store in compliance with the franchise system and for no other purpose. You acknowledge and are estopped to deny that the customer list which you develop and our franchise system in its entirety, including, but not limited to: recipes; food and beverage specifications and sources; site selection criteria; store design and decor specifications; signage; construction methods; fixtures, furnishings and equipment; employee selection, training, and evaluation; print, radio, television and other advertising and promotional techniques; inventory, accounting and other business policies and procedures; all of which we will continue to develop and all other information now or hereafter conveyed in whatever form to you by us, our affiliates or representatives; constitutes our confidential trade secrets and/or unpublished or published copyrights and we provide the same for your use solely for the purpose of enabling you to establish and operate your store in accordance with the terms of this franchise. The customer list developed by you and any other

goodwill which may arise from your use of our marks is and shall remain our sole and exclusive property and shall inure to our sole benefit. (Nothing contained in the preceding sentence shall be construed to prohibit you from receiving, for a transfer of the franchise made in compliance with the provisions of this Agreement, a price which includes payment for any goodwill for your store.)

**7.03 Assignment of Ideas, Improvements and Materials.** Just as you desire to learn from us, we hope to learn from you and to share what we have learned from you with our other stores. Accordingly, you shall promptly disclose to us all ideas, improvements and materials (including, but not limited to, menu and recipe suggestions, advertising artwork and promotional ideas and materials) relating to the operations of and the goods and services provided by your store which you or any of your legal or beneficial owners, partners, shareholders, officers, directors, agents, or employees, solely or jointly with others, develop during the franchise term and any renewal/extension term. You hereby irrevocably assign exclusive ownership of the same to us in perpetuity and you specifically grant us permission to license you and our other stores to use those ideas, improvements and materials which we approve and, should we desire, to register the same in our name alone as a trade name, trademark, service mark, copyright or patent, as applicable. You agree that we owe you no other consideration for your assignment of your ideas, improvements and materials to us or for our use of the same.

**7.04 Licensee Estoppel; Attornment.** You hereby acknowledge and are estopped to deny that the trade names, trademark, service marks, signage and logos encompassed by *Section 7.01,* the trade secrets (including but not limited to customer list) and copyrights encompassed by *Section 7.02,* and the ideas, improvements and materials encompassed by this *Section 7.03* (collectively referred to for purposes of this *Article 7* only as "the foregoing") are valid and are owned entirely by us and constitute our sole and exclusive property, and you agree that:

(a) other than pursuant to the terms of this Agreement, you shall not use or appropriate any of the foregoing in whole or in part and, except as in accordance with the terms of this franchise, you shall not use the words "Pizza Guys," “Pizza Guys The Better Guys,” "Guys," "Guy," "Men," "Man," "Superb," “Pizza Guys Real Pizza Real Value,” “Pizza Guys A Party in Every Pizza” or any formative thereof or any other trade name, trademark, service mark or logo now or later designated by us or any mark confusingly similar thereto;

(b) You are not allowed to have a web domain that includes the “Pizza Guys” name in it;

(c) you acknowledge that online ordering and text message ordering are owned by Franchisor and you are not allowed to have a link on any personal website or other website other than the Pizza Guys’ website to the online ordering unless consented to by franchisor;

(d) you shall not attempt to register with any local government, state or nation any of the foregoing in whole or in part;

(e) other than to another *Pizza Guys*® franchisee or to store employees as required for store operations, you shall not disclose any of the foregoing in whole or in part;

(f) except as required for store operations, you shall not duplicate, reprint or

otherwise copy any of the foregoing in whole or in part;

(g) you shall promptly report to us any use not authorized by us of the foregoing; and

(h) you shall cooperate with us in preventing or prosecuting any unauthorized use of the foregoing and in defending our ownership and other rights with respect to the same.

**7.05 Our Limited Duty to Defend; Your Release and Indemnification.** Our license of the marks, trade secrets and copyrights to you shall not constitute our warranty or guarantee of our ownership of them. Because of the potentially great expense of prosecuting or defending the foregoing, we reserve the absolute right to choose whether or not to prosecute or defend the same. We reserve the right to change the mark(s) to others of our own selection. A name change would entail substantial expense to you including, but not limited to, that occasioned by the change of signage and advertising and the resulting loss of customer goodwill. A name change will in no way reduce or relieve you of your obligation to pay the Weekly Franchise Fee, and any other obligation owed to us, our affiliates or representatives, or any obligation to trade vendors, etc. Accordingly, you release and indemnify us from and against any claim, obligation, loss; liability or damage caused you by our lack of ownership or failure to prosecute or defend or to obtain registration of the marks, trademarks or copyrights, or by a mark change, if any.

## ARTICLE 8: COVENANTS AGAINST COMPETITION

During the franchise term and any renewal/extension term, you and your legal and beneficial owners, partners, shareholders, officers and directors shall not, without our prior written consent, directly or indirectly, engage in, acquire any financial or beneficial interest in (including interests in corporations, partnerships or trusts, unincorporated associations and joint ventures), or become an employee of; or a consultant to, or lessor for, any business which is similar to a *Pizza Guys*® store or which prepares, serves or sells pizza.

For five (5) years following your transfer or the expiration or termination of the franchise term and any renewal/extension term, you and your legal and beneficial owners, partners, shareholders, officers and directors shall not, directly or indirectly, engage in, acquire any financial or beneficial interest in (including interests in corporations, partnerships or trusts, unincorporated associations and joint ventures), or become an employee of; or a consultant to, or lessor for, any business which is similar to a *Pizza Guys*® store or which prepares, serves or sells pizza within a ten (10) mile radius of your store premises or the location of any existing or former *Pizza Guys*® store.

Ownership of less than 2% of the shares of a company with shares listed and traded on a national or regional securities exchange shall not be deemed to violate this Article so long as neither you nor any of your legal or beneficial owners, partners, shareholders, officers or directors are employed in any capacity by such company.

## ARTICLE 9: INDEPENDENT BUSINESS PERSON, INSURANCE AND INDEMNIFICATION

**9.01 Independent Business Person; Duty to Indicate Independent Ownership;**

**Banking Relationships**. You acknowledge that your financial success depends primarily upon your personal efforts and abilities as an independent business person and that our grant of a franchise to you does not guarantee success and that the store may lose money or fail. You are engaged in your own business and, as such, you are solely responsible for directing the day-to-day activities of your store and you may hire, train, compensate, supervise, discipline and discharge such employees as in your sole judgment you deem advisable for the proper operation of your store. In no circumstances shall you or your employees be considered our agents or employees. You shall not act as or attempt to act as, or represent yourself, directly, indirectly or by implication to be an agent or employee of us, or in any manner assume or create or attempt to assume or create any obligation on our behalf or in our name. Franchisee shall hire and be the sole employer of all employees of the store, be exclusively responsible for the terms of their employment, discipline and compensation and for the proper training of such employees in the operation of the store. Franchisee shall require all store employees to maintain a neat and clean appearance and to conform to the standards of dress and/or uniforms specified by us from time-to-time.

You must display in your store and include on all written materials used, or distributed by or on the behalf of you including, without limitation, all menus, stationery, business cards, checks, receipt forms, all print, radio, television and other advertising, and other materials, a statement that *"Each Pizza Guys® store is independently owned and operated"* or other statement as we from time to time require.

You shall operate your store as a *"Pizza Guys®"* store. However, you shall not use "PIZZA GUYS" or "PIZZA GUYS THE BETTER GUYS" or "PIZZA GUYS REAL PIZZA REAL VALUE" or "PIZZA GUYS A PARTY IN EVERY PIZZA" as your corporate, partnership or company name. You shall conduct banking relations and relations with us as *"Pizza Guys® #____"* designating your franchise number therein. Your accounts with trade vendors, utility services, and filings with federal, state and local governments (e.g., fictitious business name, board of equalization, license, tax, and Internal Revenue Service) must be in your name(s) as they appear on the last page of this Agreement.

**9.02 Insurance**. Prior to taking possession of your store premises and before selling any goods or services, you shall acquire and thereafter maintain in effect insurance in the following minimum amounts and coverages:

(a) Comprehensive General Liability Insurance including products liability, excess and non-owned driver liability and broad form advertising injury coverages or endorsements with a $1,000,000 minimum combined single limit for Bodily Injury and Property Damage per occurrence. A $2,000,000 umbrella policy is recommended but not required;

(b) Worker's or Workmen's Compensation Insurance as prescribed by law in the state in which your store is located;

(c) All insurance required by the store premises lease; and

(d) All insurance required by any equipment or furnishings lease.

All insurance required to be carried hereunder shall be placed with a reputable insurance carrier admitted in and licensed to do business in the state in which your store is located and

having assets in excess of $100,000,000 with a Financial Size Category of XV and a Policyholders Rating of "A+" or "A" (Excellent) as assigned by Alfred M. Best and Company, Inc. All insurance policies required to be carried hereunder shall name us, Shahpour M. Nejad, Reza Kalantari, our officers and representatives, RSM, Inc. and any other person designated by us from time to time as an additional insured. Maintenance of the insurance required hereunder shall not relieve you of your obligations to defend and indemnify us. Proof of coverage, evidence of payment of premiums and duplicate copies of policies of insurance shall be delivered to us by your insurance carrier no fewer than forty-eight (48) hours prior to the date you receive possession of your store premises and at least annually thereafter. All policies of insurance shall be in a form approved by us and shall include a provision prohibiting policy cancellations or material changes prior to the expiration of thirty (30) days written notice to us.

We recommend that you take out an Employment Practices Liability Insurance policy which covers potential claims made by your employees for: wrongful refusal to employ a qualified applicant for employment; wrongful failure to promote, or wrongful deprivation of career opportunity; wrongful demotion, negligent evaluation, negligent reassignment or wrongful discipline; wrongful termination; employment related misrepresentation; harassment, coercion, discrimination; or oral or written publication or material that slanders, defames or libels or violates or invades a right of privacy.

In the event you shall fail to obtain or maintain the insurance required herein, we may, but need not, purchase insurance on your behalf and you shall promptly reimburse us for all premiums and other costs incurred in connection therewith. However, by placing such insurance, we do not guarantee adequate coverage.

**9.03 Indemnification.** You shall indemnify us, hold us harmless from and defend us, our affiliates and representatives from and against all claims, demands, obligations, liabilities, losses, damages, settlements, judgments, penalties and other expenses, including federal, state and local taxes, attorneys' fees and costs of investigation, litigation or administrative proceedings, incurred by or imposed on us in connection with any act or omission or alleged act or omission of you or your employees or agents, arising from or relating to your store's business, operations or premises. This indemnity provision is a blanket provision and is in addition to, and is not in derogation of, those imposed elsewhere.

## ARTICLE 10: BREACH AND REMEDIES

**10.01 Breach.** Your failure to comply with any lawful requirement of the franchise shall constitute a breach of this Agreement. For purposes of this Agreement the phrase "your failure to comply with any lawful requirement of the franchise" shall mean any failure to comply with any provision of this Agreement, the Store Operations Manual, and any other agreement signed between you and us in the connection of the operation of your franchise.

**10.02 Remedies.** In the event that you fail to comply with any lawful requirement of the franchise, we may, in addition to all other remedies now or hereafter provided us by law, equity or this Agreement, do one or more of the following:

(a) Terminate your franchise in accordance with *Article 11* and, thereupon, be entitled to recover past and future damages from you and redirect the store's main telephone

number to another location from which we or another franchisee may serve your customer's (see *Section 2.04* and see the *Telephone Number Lease);*

(b) Not terminate your franchise but, in the event that you fail to cure such breach in accordance with *Article 11:* (1) act to cure such breach on your behalf and recover from you the cost of such cure, consequential damages and/or (2) be entitled to recover past and future damages from you and redirect the store's main number to another location from which we or another franchisee may serve your customer's until you comply with the franchise (see *Section 2.04* and see the *Telephone Number Lease);*

(c) Seek injunctive relief. (In this regard, you acknowledge that your breach of the franchise is likely to cause damage to us which may not be adequately compensated by money damages and, accordingly, you agree that injunctive relief is appropriate in addition to any other remedy.)

The above remedies are cumulative and our use of one or more of them shall not prevent us from thereafter again using the same or other remedies. Our lack of action on your failure to comply with any lawful requirement of the franchise, whether in a single instance or repeatedly, shall not be construed as our waiver of such breach or any future breach.

## ARTICLE 11: GROUNDS FOR TERMINATION PRIOR TO EXPIRATION OF TERM

**11.01 Grounds for Termination for "Good Cause" With No More Than 60-Days Opportunity to Cure.** Except as otherwise provided by *Section 11.02,* we shall not terminate your franchise prior to the expiration of the term, except for good cause. Except as provided by Section 11.02, "good cause" shall be limited to the failure of the franchisee to substantially comply with the lawful requirements imposed upon the franchisee by the franchise agreement after being given notice at least 60 days in advance of the termination and a reasonable opportunity, which in no event shall be less than 60 days in advance of the termination and a reasonable opportunity, which in no event shall be less than 60 days from the date of the notice of noncompliance, to cure the failure. The period to exercise the right to cure shall not exceed 75 days unless there is a separate agreement between you and us to extend the time.

You and every employee of your franchise must comply with and follow any and all polices we and/or the federal government and you state and local government put into place regarding the cleanliness and sanitation of your franchise and the health and safety of your employees and customers. If you fail to follow any or all of these policies, you will be in default of this Franchise Agreement and you will have thirty (30) days to cure such default. If the default is not cured after thirty (30) days, we reserve the right to terminate this Franchise Agreement.

**11.02 Grounds for Immediate Notice of Termination Without Opportunity to Cure.** If during the period in which your franchise is in effect, there occurs any of the following events, immediate notice of termination without an opportunity to cure, shall be deemed reasonable:

(a) You or the business to which the franchise relates are declared bankrupt or are judicially determined to be insolvent, or all or a substantial part of the assets thereof are assigned to or for the benefit of any creditor, or you admit your inability to pay your debts as

they come due;

(b) You abandon the franchise by failing to operate the business for five (5) consecutive days during which you are required to operate the business under the terms of this Agreement or any shorter period after which it is not unreasonable under the facts and circumstances for us to conclude that you do not intend to continue to operate the franchise, unless such failure to operate is due to fire, flood, earthquake or other similar causes beyond your control;

(c) We and you agree in writing to terminate the franchise;

(d) You make any material misrepresentation relating to your acquisition of the franchise or the franchised business or you or an employee of yours engages in conduct which reflects materially and unfavorably upon the operation and reputation of the franchise, the franchised business or the *Pizza Guys*® chain. Warning: You are our representative, so the use of *alcohol or drugs* by you, or anyone working at your store would constitute "conduct which reflects materially and unfavorably upon the operation and reputation of the franchised business and the chain" and, accordingly, constitutes a breach of the terms of the agreement pursuant to Article 10.01 and grounds for termination in accordance with Article 11.01. Also, your failure to make *early payment* to produce, food and beverage vendor(s) and your advertiser(s) in accordance with *Section 4.01(t)* to constitute "conduct which reflects materially and unfavorably upon the operation and reputation of the franchise, the franchised business or the *Pizza Guys*® chain" and, accordingly, grounds for immediate termination without opportunity to cure;

(e) You, or an employee of yours, does any act which is harmful, unfavorable or reflects negatively upon the franchised business or the *Pizza Guys*® goodwill and reputation. You do any act without regard to public morals, conventions and Franchisor's policies. If you, or an employee of yours, have committed or do commit any act, or if you have conducted or do conduct yourself in a manner, which shall be an offense involving moral turpitude under federal, state or local laws, or which might tend to bring you to public disrepute, contempt, scandal or ridicule, or which might tend to reflect unfavorably upon the franchised business or *Pizza Guys*®, its customers, business partners, sponsors, if any, or their advertising agencies, if any, or otherwise injure the success of the franchise business, we will consider such acts a breach of the terms of this agreement pursuant to Article 10.01 and grounds for immediate termination without opportunity to cure. Without limiting the foregoing, specific examples of prohibited activities are theft, swindling, embezzlement, indecency, crude, vile, or depraved acts that are intended to arouse or to gratify the sexual desire of the actor (including posting of such acts via the internet, YouTube and/or other social media), and drug or alcohol offenses. Your, or an employee of yours, involvement in the manufacture, distribution, sale, purchase, possession or use of an illegal drug shall be deemed to be an offense within the ambit of this Article, giving Franchisor the right for immediate termination without opportunity to cure. You shall be held responsible to us for any act of an employee that gives us or the Pizza Guys brand a bad reputation.

(f) You fail, for a period of ten (10) days after notification of noncompliance, to comply with any federal, state or local law or regulation applicable to the operation of the franchise;

(g) You, after curing any failure in accordance with *Section 11.01,* engage in the same noncompliance whether or not such noncompliance is corrected after notice;

(h) You repeatedly fail to comply with one or more requirements of this Agreement, whether or not corrected after notice;

(i) Your store or your store premises are seized, taken over or foreclosed by a government official in the exercise of his duties, or its operations are seized, taken over, or foreclosed by a creditor, lienholder or lessor, provided that a final judgment against you remains unsatisfied for thirty (30) days (unless a supersedeas or other appeal bond has been filed); or a levy of execution has been made upon the franchise granted by this Agreement or upon any property used in the franchised business and it is not discharged within five (5) days of such levy;

(j) You are convicted of a felony or any other criminal misconduct which is relevant to the operation of the franchise;

(k) You fail to pay any franchise fee or other amount due to us or our affiliates within five (5) days after receiving written notice that such fees are overdue;

(l) We make a reasonable determination that your continued operation of the franchise will result in an imminent danger to public health or safety;

(m) Upon auditing your computer system, We find customer's credit card numbers on file in the POS.

(n) If we find that you purposely reported incorrect sales; or

(o) You fail to permit us, our representatives, accountants, attorneys and other agents to inspect and audit, without notice, during regular business hours your books and records. Or, an inspection or audit discloses that actual Gross Sales exceed your reported Gross Sales, and you fail to pay us: (a) the additional amount owed, (b) interest on said amount from the date originally due until paid, and (c) if actual Gross Sales exceed your reported Gross Sales by 2% or more, the cost of the inspections and audits which revealed the under-reported sales including, but not limited to, our agents' fees, travel, meals and lodging.

## ARTICLE 12: TERM, RENEWAL AND EXPIRATION

**12.01 Term of Franchise.** The term of the franchise is ten (10) years from the date of this Agreement.

**12.02 Renewal (or Extension).** Provided that you have fully, faithfully and timely carried out and performed all of your obligations under this Agreement and provided that refusal to renew would not be permitted by the California Franchise Relations Act (California Business & Professions Code section 20000 *et seq.)* or, if refusal to renew would be permitted, provided that we have not given you 180 days prior written notice of intent not to renew, you may renew the franchise (or in the event that we are not then granting new franchises, you may extend the franchise term) for unlimited successive terms of ten (10) years, each renewal (or extension)

term commencing upon the expiration of the then current term or renewal (or extension) term.

(a) **Your Notice of Renewal (or Extension); Renewal/Extension Fee.** To renew (or in the event that we are not then granting new franchises, you may extend the franchise term) you must give us written notice at least 180 days but not more than 270 days prior to the expiration of the then current term or renewal (or extension) term ("Notice of Renewal/Extension"); and, at the time of delivery of such notice, pay us a renewal fee equal to one-half (½) of the then current Initial Franchise Fee for *Franchise Agreements* (or in the event we are not then granting new franchises, an extension fee of $12,500) ("Renewal/Extension Fee").

(b) **Terms of Renewal (or Extension).** We and you must sign our then current form of franchise agreement and all other documents required of new franchisees (or in the event that we are not then granting new franchises, you must re-sign this Agreement and related documents). The terms of the franchise, including the amount of the Weekly Franchise Fee, the Minimum Monthly Advertising Expenditure and other fees shall be those set forth in the then current franchise agreement (or in the event that we are not then granting new franchises, shall be those set forth in this Agreement).

(c) **Remodeling, Re-Equipping or Relocation.** As a further condition of renewal (or extension), if we require, you at your sole expense shall undertake to remodel your store pursuant to *Section 2.06.* As a further condition of renewal (or extension), if we deem your store is in an unsafe location, we may require you to relocate your store within your Exclusive Area to a location pre-approved by us in accordance with Article 2. You shall bear the entire cost of relocating your store.

**12.03 Expiration Upon End of Term If Not Renewed (or Extended).** We and you agree that the franchise granted by this Agreement, if not renewed (or extended) in the manner set forth above, shall expire at the end of such nonrenewed (or nonextended) term.

## ARTICLE 13: EFFECT OF EXPIRATION OR TERMINATION

**13.01 Effect of Expiration or Termination.** Upon expiration or termination of the franchise the following shall occur immediately without further notice:

(a) **Conclusion of Franchise.** Your right to operate a *Pizza Guys®* store, to use any part of the franchise system, the customer list, the recipes, the *"Pizza Guys®"* mark and any other trade name, trademark, service mark, logo or indicia designated by us, shall thereupon immediately cease and you shall: (1) promptly pay us and our affiliates all moneys due; (2) promptly return to us the customer list, the *Store Operations Manual* and all other materials furnished to you, together with any other materials containing any trade name, trademark, service mark, logo or other indicia encompassed by *Section 7.01,* any formative thereof or any name or mark potentially confusingly similar thereto; any trade secret or copyright encompassed by *Section 7.04;* and any idea, improvement or materials encompassed by *Section 7.05;* (3) not thereafter operate a *Pizza Guys®* store, use any part of the franchise system, the customer list, the recipes, the *"Pizza Guys®"* mark and any other trade name, trademark, service mark, logo or indicia designated by us or similar to or likely to be confused with them; and (4) not thereafter disclose, reveal or publish to any person any part of the customer list, our trade secrets,

copyrights, or the franchise system.

(b) **Right of Entry and Possession.** You shall not for thirty (30) days, without our prior written consent, remove any equipment, furnishings, fixtures, signs, inventory, leasehold improvements or other property from your store premises. We shall have an immediate right to enter and take possession of your store premises in order to maintain continuous operation of the *Pizza Guys*® store, to provide for orderly change of management and disposition of the real and personal property and to otherwise protect our interest, whether or not such right of entry and possession is provided for in your store premises lease. If we do take over the store, you must release yourself from the store premises lease. We have the right to take over the lease upon your default.

(c) **Option to Purchase**. Except as provided in this section, upon a lawful termination or nonrenewal of the franchise, We shall purchase from you, at the value of price paid, minus depreciation, all inventory, supplies, equipment, fixtures, and furnishings purchased or paid for under the terms of the franchise agreement or any ancillary or collateral agreement by you to us or our approved suppliers and sources, that are, at the time of the notice of termination or nonrenewal, in the possession of you or used by you in the franchise business. We shall have the right to receive clear title to and possession of all items purchased from you under this section. We are not required to purchase any personalized items, inventory, supplies, equipment, fixtures, or furnishings not reasonably required to conduct the operation of the franchise business in accordance with the franchise agreement or any ancillary or collateral agreement or to which you, at the cessation of operation of the franchise business by you, cannot lawfully, or does not, grant us clear title and possession upon our payment to you for the inventory, supplies, equipment, fixtures, or furnishings.

This section shall not apply: (1) when you decline a bona fide offer of renewal from us; (2) if we do not prevent you from retaining control of the principal place of the franchise business; (3) to any termination or nonrenewal of a franchise due to a publicly announced and nondiscriminatory decision by us to completely withdraw from all franchise activity within the relevant geographic market area in which the franchise is located; (4) if we and you mutually agree in writing to terminate or not renew the franchise; (5) to any inventory, supplies, equipment, fixtures, or furnishings that are sold by you between the date of the notice of termination or nonrenewal, and the cessation of operation of the franchise business, by you, pursuant to the termination or nonrenewal.

Upon the termination or nonrenewal of the franchise, we may offset against the amounts owed to you under this section any amounts owed by you to us.

(d) **Survival of Provisions.** Your conditions and promises (including, but not limited to, those set forth in *Article 8)* which by their terms or by reasonable implication are to be observed or performed, in whole or in part, after the expiration or termination of the franchise shall survive the expiration or termination of the franchise.

## ARTICLE 14: TRANSFER

**14.01 No Transfer Except as Expressly Permitted Herein.** Except as expressly permitted by this Article, no interest in the franchised business, this Agreement, your store or its

assets (except for sales in the usual course of business) and no interest of any of your legal or beneficial owners, partners, shareholders, officers or directors or persons signing this Agreement on behalf of you shall be sold, transferred, assigned or otherwise hypothecated, in whole or in part, directly or indirectly whether voluntarily or by operation of law (all such hypothecations shall hereinafter be collectively referred to as a "transfer").

(a) **Transfer Upon Death; Rights of Surviving Spouse, Heirs or Estate.** Upon your death (or the death of the majority partner or shareholder of a partnership or corporate franchisee) the surviving spouse, heirs or representative of the estate of the deceased (or the deceased majority partner or shareholder of a partnership or corporate franchisee) may participate in the operation and ownership of the franchise under the terms of this Agreement for a reasonable time, not to exceed 120 days, after the death. During that time the store must be operated by a person who has completed our training and the surviving spouse, heirs or representative of the estate of the deceased shall either:

(1) satisfy all of our then current qualifications and requirements for new franchises (or in the event that we are not then granting new franchises, those qualifications and requirements for the franchise under this Agreement) including satisfactory completion of the Initial Training Program, at their expense; or

(2) transfer the franchise pursuant to Section *14.01(c)* to a person who satisfies our then current qualifications for new franchises (or in the event that we are not then granting new franchises, those qualifications and requirements for the franchise under this Agreement).

The rights granted pursuant to this subsection shall be conditioned upon the surviving spouse, heirs or representative of the estate of the deceased signing this Agreement and assuming liability for and maintaining all standards and obligations of the franchise.

If, within the period set forth above, the surviving spouse, heirs or the representative of the estate of the deceased fails to satisfy either provision (1) or (2) immediately above, we may terminate this franchise as a failure to comply with a lawful requirement of the franchise within the meaning *of Section 10.01,* herein and thereafter we may exercise our rights after termination pursuant to *Article 13.*

(b) **Transfer Upon Disability.** If you become disabled and are not able to operate the store, you may have a representative participate in the operation and ownership of the franchise under the terms of this Agreement for a reasonable time, not to exceed 120 days, after the disability occurs. During that time the store must be operated by a person approved by us.

If you do not have a representative to operate the store and/or your disability exceeds 120 days, we may terminate this franchise as a failure to comply with a lawful requirement of the franchise within the meaning *of Section 10.01,* herein and thereafter we may exercise our rights after termination pursuant to *Article 13.*

(c) **Transfer Upon Prior Written Consent; Transfer Fee; Our Right of First Refusal.** You may request, but we are not obligated to grant our consent to a proposed transfer. If you desire to transfer:

(1) We must meet your proposed transferee(s) (referred to as "Buyer(s)" herein). You must arrange for the personal meeting at our corporate offices at a mutually convenient time. Each of your proposed Buyers must be present at the meeting.

(2) If, at the meeting, we preliminarily approve your proposed Buyer(s), we will provide your proposed Buyer(s) with Franchise Application(s) and, if we are then granting new franchises, our current franchise disclosure document. Your proposed Buyer(s) must thereupon sign and deliver to us the franchise disclosure document receipt and, within 2 weeks thereafter, must complete, sign and return to us the Franchise Applications(s) with financial information.

(3) If, after reviewing their Franchise Application(s) and financial information, we approve your proposed Buyer(s), you must provide us with your cashier's check (the "Transfer Fee") payable to us in the amount of $5,000 if the proposed Buyer is an existing franchisee of the franchise system, or ½ our then current Initial Franchise Fee for *Franchise Agreements* or $12,500 in the event we are not then granting new franchises if the proposed Buyer is new to the franchise system. The Transfer Fee is due after our approval of your proposed buyer(s) but is nonrefundable even if for any reason, the proposed transfer does not occur; and (A) your proposed Buyer(s) must sign our then current form of franchise agreement and all other documents required of new franchises (or, in the event that we are not then granting new franchises, your proposed Buyer(s) must re-sign this Agreement and related documents) and (B) within two (2) weeks thereafter your proposed Buyer(s) must take our Initial Training Program at the time and at the location specified by us. Also, if we are not satisfied with the Phase I initial training by you to buyer, we, in our sole discretion, have the right to make the buyer go through Phase I training again. (The Transfer Fee is nonrefundable even in the event that the transfer does not, for any reason, occur.)

(4) At the time your proposed Buyer(s) has/have satisfactorily completed our Initial Training Program and satisfied all of our then current qualifications and requirements for new franchises (or in the event that we are not then granting new franchises, those qualifications and requirements for the franchise under this Agreement) and you have performed all necessary obligations, we shall have thirty (30) days to provide you written notice of our: (A) consent to the proposed transfer, (B) denial of consent to the proposed transfer, or (C) exercise of our right of first refusal to acquire the interest on the terms of the proposed transfer.

If we consent, the transfer may occur, but only between the identical transferor(s) (referred to as "Seller(s)" herein) and Buyer(s) on the identical terms consented to.

If we consent, but, for any reason, the transfer is not completed within sixty (60) days of our consent, the proposed transfer shall be deemed withdrawn and all the provisions of this section shall again become fully applicable as if such transfer had not been proposed and our right of first refusal shall apply to any subsequent request for transfer but we shall not refund any part of the Transfer Fee.

If we deny our consent, we shall state in writing our reasons therefor but shall not refund any part of the Transfer Fee.

If we exercise our right of first refusal to purchase, we shall refund to you the entire amount of the Transfer Fee.

If for any reason, your proposed Buyer(s) fail to satisfactorily complete our Initial Training Program or to satisfy all of our then current qualifications and requirements for new franchises (or in the event that we are not then granting new franchises, those qualifications and requirements for the franchise under this Agreement), or you fail to perform all things required for the proposed transfer as defined in this Agreement, within six (6) months of our receipt of the Transfer Fee, the proposed transfer shall be deemed withdrawn and all the provisions of this section shall again become fully applicable as if such transfer had not been proposed and our right of first refusal shall apply to any subsequent request for transfer but we shall not refund any part of the Transfer Fee.

(d) **Considerations.** In considering a proposed transfer: You must allow us or our representatives to inspect your store, your records and your operations; you must be in compliance with our *Store Operations Manual,* as revised from time to time, and must not be in breach of this Agreement, or any other agreement with us, our affiliates or representatives. You must provide us with the account login credentials for the store's business accounts such as Yelp, Business Google, etc.; You cure any existing store deficiencies and upgrade or remodel your store as we specify; Seller(s) and Buyer(s) must provide all documents and make all representations required by us; if required by us, Seller(s) and/or Buyer(s) at their expense shall undertake to remodel your store pursuant to *Section 2.06* and said undertaking shall be secured by Seller(s) and Buyer(s) as required by us; If we deem your store is in an unsafe location, Seller(s) and/or Buyer(s) shall undertake to relocate your store within your Exclusive Area to a location pre-approved by us in accordance with Article 2. You shall bear the entire cost of relocating your store; and Buyer(s) must satisfy our then current qualifications for new franchises (or in the event that we are not then granting new franchises, Buyer(s) must satisfy those qualifications and requirements for the franchise under this Agreement).

**14.02 Terms of the Franchise After Transfer.** After transfer, the terms of the franchise, including the amount of the Weekly Franchise Fee, Minimum Monthly Advertising Expenditure and other fees shall be those set forth in the then current franchise agreement (or in the event that we are not then granting new franchises those set forth in this Agreement).

**14.03 Releases Upon Your Transfer.** You will not be immediately released by a transfer. You shall remain personally bound and liable to us for all monetary and nonmonetary obligations of the Buyer(s) under this Agreement for a period of two (2) years after the closing date of such transfer transaction. As a condition of transfer, you, your Buyer(s), and us shall sign a *Release & Indemnification Agreement,* which, among other things, holds us and our affiliates and representatives harmless from any claim relating to the transfer and/or operation of the store and the franchise.

**14.04 Transfer by Us.** This Agreement may be transferred by us or any successor. Upon such transfer, we shall be deemed released from all liability to you and you shall look solely to our transferee(s) for our performance of this Agreement.

## ARTICLE 15: MISCELLANEOUS PROVISIONS

**15.01 Nouns and Pronouns.** The masculine of any pronoun shall include the feminine and/or the neuter thereof, and the singular of any noun or pronoun shall include the plural, or vice versa, wherever the context requires.

**15.02 Article and Section Headings.** Article and section headings used herein are for reference only and shall not be employed to interpret the meaning of this Agreement.

**15.03 Invalidity and Severability.** If any part of this Agreement for any reason shall be declared invalid, such declaration shall not affect the validity of the remainder not declared invalid, which shall remain in full force and effect.

**15.04 Notices.** Any notice or request given or made pursuant to this Agreement:

(a) Shall be in writing;

(b) Shall be personally delivered, posted by registered, certified or other receipted mail or delivered by telegram to the party's address on page 1 of this Agreement or, after your store has first opened, to you solely at your store address or to such other address as such party may from time to time designate in writing; and

(c) Shall contain a clearly stated reason for such notice. (Notices of Expiration shall contain a clear statement of the reason for expiration and the effective date of such expiration. Notices of Termination shall contain a clear statement of intent to terminate the franchise together with: (1) the reasons therefor, and (2) the effective date of such termination.)

**15.05 Agreement to Submit Disputes to a Referee Pursuant to the Provisions of California Code of Civil Procedure §§638 through 645.1; Punitive and Noneconomic Damages Not Awardable; Trademark Matters Not Arbitrable; Choice of Forum; Choice of Law.**

Except as specifically limited below, any dispute between you and us regarding this Agreement and all matters relating to the validity, construction, performance and enforcement hereof shall be heard by a referee pursuant to the provisions of California Code of Civil Procedure §§638 through 645.1, inclusive, according to the following procedures:

(a) The parties shall agree upon a single referee who shall then try all issues, whether of fact or law, and report a finding and judgment thereon. If the parties are unable to agree upon a referee within ten (10) days of a written request to do so by any party, then any party may thereafter seek to have a referee appointed pursuant to California Code of Civil Procedure §§638 and 640;

(b) The parties agree that the referee shall have the power to decide all issues of fact and law and report his/her decision thereon, and to issue all legal and equitable relief appropriate under the circumstances of the controversy before him/her; provided, however, that to the extent the referee is unable to issue and/or enforce any such legal and equitable relief, either party may petition the court to issue and/or enforce such relief on the basis of the referee’s decision;

(c) The California Evidence Code rules of evidence and procedure relating to the conduct of the hearing, examination of witnesses and presentation of evidence shall apply;

(d) Any party desiring a stenographic record of the hearing may secure a court reporter to attend the hearing; provided, the requesting party notifies the other parties of the request and pays for the costs incurred for the court reporter;

(e) The referee shall issue a written statement of decision which shall be reported to the court in accordance with California Code of Civil Procedure §643 and mailed promptly to the parties;

(f) Judgment may be entered on the decision of the referee in accordance with California Code of Civil Procedure §644, and the decision may be excepted to, challenged and appealed according to law;

(g) The parties shall promptly and diligently cooperate with one another and the referee, and shall perform such acts as may be necessary to obtain a prompt and expeditious resolution of the dispute or controversy in accordance with the terms hereof; and

(h) The cost of such proceeding, including but not limited to the referee's fees, shall initially be borne equally by the parties to the dispute or controversy. However, the prevailing party in such proceeding shall be entitled, in addition to all other costs, to recover its contribution for the costs of the reference and its reasonable attorney's fees as items of recoverable costs.

Notwithstanding the foregoing, we or our affiliates may, but are not required to, seek provisional and summary remedies including, but not limited to, writs of possession and attachment, unlawful detainer, forcible eviction and detainer and the like, and injunctions and temporary restraining orders in civil litigation proceedings. Any hearing shall be heard in Sacramento, California. The forum for any legal action shall be the proper court of the state of California in and for the County of Sacramento or the United States District Court for the Eastern District of California, Sacramento Branch.

**15.06 Cost of Enforcement or Defense.** Attorneys' fees shall not be recoverable as a cost of any dispute submitted to referee. The referee's fees shall be borne by either you or us or by both of you and us in such proportion as the referee(s) shall decide.

**15.07 Binding Effect.** This Agreement shall be binding upon and shall inure to the benefit of you and us hereto and our respective heirs, executors, administrators, personal representatives, transferees, successors and assigns.

**15.08 Entire Agreement.** This Agreement constitutes and contains the entire agreement and understanding of you and us with respect to its subject matter. There are no representations, undertakings, agreements, terms, or conditions not contained herein. Nothing in this or in any related agreement, however, is intended to disclaim the representations we made in the franchise disclosure document that we furnished to you.

**15.09 Modification.** This Agreement may be modified only by a writing referencing this Agreement and stating that it is an amendment thereto. Such writing must be signed by authorized representatives of the parties. Only our President is authorized to sign for us, and no modification or amendment signed by any other representative of us shall be binding upon us. We may unilaterally modify the *Pizza Guys*® menu, recipes, marks, methods, procedures, and the *Store Operations Manual* as we deem advisable, all of which you acknowledge that we have developed and own and will continue to develop and own.

## ARTICLE 16: SIGNATURES; YOUR PERSONAL GUARANTEE

Each person signing this Agreement agrees, warrants and represents that the undersigned constitutes all of your legal and beneficial owners, partners, shareholders, officers and directors and that, together, they own the entire interest in this Agreement, in the business of your store and in its income. You are required to inform Franchisor of all your partners, including silent partners.

Personal Guarantee: Each person signing this Agreement for franchisee, having read this entire Agreement and being directly or indirectly beneficially interested in the store to be conducted by the franchisee, and to induce us to enter into this franchise with franchisee, hereby jointly and severally guarantee the performance of franchisee and each other person signing this Agreement for franchisee including, without limitation, the performance of this Agreement and any other agreement with us including the payment of all sums due hereunder or thereunder. Each person signing this Agreement for franchisee agrees to sign the Unconditional, Irrevocable Guaranty attached to this Agreement as Attachment A. Each person signing this Agreement for franchisee hereby expressly waives any modification, amendment, extension or renewal of this Agreement, the franchise granted hereby, and this guarantee and any notice thereof and waives notice of default. Nothing herein shall be deemed to abrogate or impair any separate instrument of guarantee or subordination which the undersigned may have previously signed or may contemporaneously herewith or hereafter sign. This guarantee shall be considered a continuing guarantee.

[Signature Pages followed on next page]

**FRANCHISEE**

| | |
|---|---|
| _____ | _____ |
| (***Signature***) | (***Signature***) |
| _____ | _____ |
| *(Typed or printed name and capacity of Signer)* | *(Typed or printed name and capacity of Signer)* |
| _____ | _____ |
| *(Residence Address)* | *(Residence Address)* |
| _____ | _____ |
| *(City State Zip)* | *(City State Zip)* |
| _____/_____ | _____/_____ |
| *(Res. Telephone No. Bus. Telephone No.)* | *(Res. Telephone No. Bus. Telephone No.)* |
| _____/_____ | _____/_____ |
| *(SSN) (Date of Birth)* | *(SSN) (Date of Birth)* |
| _____ | _____ |
| *(Driver's License No. and Issuing State)* | *(Driver's License No. and Issuing State)* |

**FRANCHISEE**

| | |
|---|---|
| _____ | _____ |
| (***Signature***) | (***Signature***) |
| _____ | _____ |
| *(Typed or printed name and capacity of Signer)* | *(Typed or printed name and capacity of Signer)* |
| _____ | _____ |
| *(Residence Address)* | *(Residence Address)* |
| _____ | _____ |
| *(City State Zip)* | *(City State Zip)* |
| _____/_____ | _____/_____ |
| *(Res. Telephone No. Bus. Telephone No.)* | *(Res. Telephone No. Bus. Telephone No.)* |
| _____/_____ | _____/_____ |
| *(SSN) (Date of Birth)* | *(SSN) (Date of Birth)* |
| _____ | _____ |
| *(Driver's License No. and Issuing State)* | *(Driver's License No. and Issuing State)* |

**FRANCHISOR**

By our signatures below, we accept you as a Pizza Guys® franchisee.

PIZZA GUYS FRANCHISES, INC.

By: _____
Shahpour M. Nejad, President

**PIZZA GUYS FRANCHISES, INC.**

**ATTACHMENT A TO FRANCHISE AGREEMENT**

**UNCONDITIONAL, IRREVOCABLE GUARANTY**

This Unconditional and Irrevocable Guaranty ("Guaranty") is made as of _____ by the undersigned ("Guarantors") for the benefit of Pizza Guys Franchises, Inc., and its successors and assigns ("Franchisor"), to induce Pizza Guys to execute that certain franchise agreement ("Agreement") by Pizza Guys to _____ ("Franchisee").

WHEREAS, Pizza Guys is not willing to execute the Agreement with Franchisee unless the Guarantors sign and deliver this Guaranty to Pizza Guys and perform their obligations hereunder; and

WHEREAS, each of the Guarantors will benefit personally if Franchisor extends a franchise to Franchisee and each of the Guarantors has asked Franchisor to extend a franchise to Franchisee;

NOW, THEREFORE, to induce Franchisor to sell a Pizza Guys franchise to Franchisee and/or to otherwise extend credit to Franchisee from time to time, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantors hereby make the following guaranty to Franchisor:

1. **Unconditional Guaranty of Payment**. Guarantors, jointly and severally, unconditionally, absolutely, irrevocably and to the same extent as if the undersigned had signed the Agreement as Franchisee, assumes all liabilities, obligations and duties of Franchisee accruing under the Agreement, and guarantees to Franchisor and Franchisor's successors and assigns the full, prompt and complete performance of each and all of the terms, covenants, conditions and provisions of the Agreement to be kept and performed by Franchisee or Franchisee's successors or assigns, including the payment of all fees, Promissory Notes, and any other charges to accrue thereunder and all damages that may arise as a consequence of the nonperformance thereof. No act or thing need occur to establish any Guarantor's liability hereunder.

   **Each Guarantor hereby waives the right to require Franchisor to proceed against Franchisee or any other party, to proceed against or to apply any security Franchisor may hold, or to pursue any other remedy for Guarantor's benefit. Each Guarantor agrees that Franchisor may proceed against any Guarantor under this Guaranty without pursuing or exhausting any remedies against Franchisee or any other party and without proceeding against or applying any security Franchisor may hold.**

2. **Representations and Warranties**. Each Guarantor represents and warrants to Franchisor as follows: (a) Guarantor acknowledges that Franchisor would not extend a franchise and/or any credit to Franchisee without this Guaranty; (b) Guarantor has a direct and

substantial economic interest in Franchisee and expects to derive substantial benefits therefrom; (c) Guarantor is not insolvent, as defined in the US Bankruptcy Code, and will not become insolvent as a result of this Guaranty; and, (d) Guarantor has reviewed and approved all the terms and conditions of the Agreement and this Guaranty and consulted with legal counsel.

3. **Rights of Franchisor**. Franchisor may deal exclusively with Franchisee in all matters relating to the Agreement without notice to and/or the approval of any Guarantor(s). Each Guarantor shall remain jointly and severally liable regardless of any act or omission by Franchisor which might otherwise directly or indirectly result, by operation of law or otherwise, in the discharge or release in whole or in part of the Franchisee, any other Guarantor, or any other person, or the discharge, release, or impairment of any collateral now or hereafter held as security in connection with the Agreement. This Guaranty remains fully enforceable irrespective of any defenses which the Franchisee may assert, including without limitation, the failure of consideration, breach of warranty, payment, statute of frauds, statute of limitations, accord and satisfaction, and usury. Guarantors agree that Franchisor may, in its sole and absolute discretion and without prejudice to or in any way limiting or lessening its rights under this Guaranty, do or fail to do any of the following one or more times, without notice to or the approval of any one or more of the Guarantors, and without diminishing, altering, or otherwise affecting the liability of each Guarantor hereunder: (a) grant extensions of time or other indulgences to Franchisee, (b) alter or amend any instrument of the Agreement, (c) authorize the sale of any security, whether real or personal property, (d) take additional or substituted security, whether real or personal property, (e) discharge or release any party or parties, (f) realize on or release any security, (g) accept partial payments, (h) accept or make compositions or other arrangements or file or refrain from filing a claim in any bankruptcy proceeding of Franchisee or other Guarantor.

4. **Waiver of Defenses**. Each Guarantor hereby waives, to the extent permitted by law, any and all defenses which may now or hereafter exist by virtue of any statute, statute of limitations, valuation, stay or moratorium law or other similar law now or hereafter in effect; including without limitation, any defense based on any of the following: (a) all rights and benefits under Section 2809 of the California Civil Code, if applicable, purporting to reduce the undersigned's obligation as guarantor in proportion to the principal obligation hereby guaranteed, (b) the failure or invalidity of, or any defect in, documents, (c) any disability or other defense of the Franchisee, any other Guarantor, or any other person, (d) any error or omission in connection with Franchisor's administration of the Franchise documents or of the Agreement, (e) the loss or impairment of any right of subrogation, (f) the foreclosure of any collateral; it being intended that this Guaranty shall survive the realization upon any collateral, including without limitation nonjudicial foreclosure. Guarantor shall be and shall remain liable for any deficiency remaining after foreclosure of any mortgage or security interest securing payment of the Agreement, whether or not the liability of Franchisee or any other obligor for such deficiency is discharged pursuant to statute or judicial decision. Without limiting the foregoing, each Guarantor hereby further waives: (i) the extension of the obligations of the Guaranty arising by reason of the institution of proceedings by or against

Franchisor under or pursuant to applicable bankruptcy laws and (ii) any right to participate in any security.

5. **Waiver of Right of Subrogation**. Until the Agreement is paid in full, each Guarantor hereby waives all rights that such Guarantor may now have and/or may acquire hereafter, whether by subrogation, contribution, reimbursement, recourse, exoneration, contract or otherwise, to recover from the Franchisee and/or from any property of the Franchisee any sums paid under this Guaranty. (  ) (  ) (  ) (  )

6. **Waiver of Right of Reimbursement**. Each Guarantor waives any right of reimbursement, contribution, recourse, and/or any other right or remedy of Guarantor against Franchisee, any other Guarantor, and/or any other person to recover amounts which any Guarantor is obligated to pay under this Guaranty, except for any right of subrogation after payment of the Agreement in full.

7. **Bankruptcy and Assignment of Rights**. If any payment made by Franchisee to Franchisor is reclaimed in a bankruptcy, or receivership proceeding, Guarantors, jointly and severally shall pay to Franchisor the amount so reclaimed. Each Guarantor assigns to Franchisor all rights such Guarantor may have in any proceeding involving Franchisee under the U.S. Bankruptcy Code and/or under any receivership or insolvency proceedings involving Franchisee, whether or not such rights relate to this Guaranty. Such assignment shall not diminish, alter, or otherwise affect the liability of each Guarantor under this Guaranty.

8. **Attorneys' Fees and Collection Expenses**. Each Guarantor agrees to pay or reimburse Franchisor on demand for all legal fees and other costs and expenses incurred by Franchisor in endeavoring to collect and enforce the Agreement and/or in enforcing this Guaranty, together with interest at the maximum rate permitted by law.

9. **Joint and Several Obligations; Community Property**. The obligations of each Guarantor under this Guaranty are joint and several among the persons signing as Guarantor. Franchisor, in its sole discretion, may enforce this Guaranty against any one or more of the undersigned persons as Guarantor. If any of the undersigned persons are married, in addition to signing this Guaranty as individual persons and binding their respective separate property, they sign this Guaranty on behalf of their marital community and bind their community property.

10. **Waivers by Guarantor**. Each Guarantor hereby waives any and all defenses and discharges otherwise available to a surety, guarantor and/or accommodation co-obligor. Each Guarantor waives any and all defenses, claims, setoff and discharges of the Franchisee and/or of any other obligor pertaining to the Agreement, except the defense of discharge by payment in full.

    Each Guarantor will not assert, plead or seek to enforce against Franchisor any claim, defense and/or setoff available to Guarantor against the Franchisee. Each Guarantor hereby waives any right to assert against Franchisor as a defense, counterclaim, setoff or crossclaim, any defense (legal or equitable), counterclaim, setoff or crossclaim which

such Guarantor may now or at any time hereafter have under applicable law, rule, arrangement or relationship against Franchisee, Franchisor and/or anyone else. Each Guarantor hereby waives all defenses, counterclaims and setoffs of every kind and nature whatsoever arising, directly or indirectly, from the present or future lack of perfection, sufficiency, validity or enforceability of the Agreement, its documentation or any security interest with respect to the Agreement with Franchisee, any of its assets or properties and/or any other person.

Each Guarantor waives all defenses based on any and/or all of the following: (i) Franchisee's dissolution or loss, cancellation or forfeiture of its legal status or good standing for any reason whatsoever; (ii) Franchisee's application for or consent to the appointment of a receiver, trustee or liquidator of Franchisee and/or of all or any part of its assets; (iii) Franchisee's inability or written admission of the inability to pay its obligations as they mature; (iv) any general assignment by Franchisee for the benefit of creditors, (v) adjudication of Franchisee as bankrupt or insolvent, (vi) the filing by Franchisee of a voluntary petition in bankruptcy or a petition or any answer seeking reorganization or any arrangement for the benefit of creditors or taking advantage of any insolvency law in its capacity as a franchisee; (vii) the filing against Franchisee of any involuntary petition seeking to subject Franchisee to any bankruptcy, insolvency or similar laws, (viii) Franchisee interposing an answer admitting the material allegations of any such petition, and (ix) entry of an order, judgment or decree against Franchisee by any court approving a petition seeking the reorganization of Franchisee or the appointment of a receiver, trustee or liquidator for Franchisee or of all or of a substantial part of the assets of Franchisee.

Each Guarantor waives diligence, presentment for payment, protest and demand, notice of protest, dishonor, acceleration, and nonpayment or nonperformance, notice of the incurrence of indebtedness by Franchisee, notice of acceptance of this Guaranty, notice of any amendment or extension of the obligations of Franchisee under the Agreement, notice that Franchisor, Franchisee or any other person has taken or omitted to take any action under the Agreement or other instrument, notice of any amendment of any instrument at any time constituting or relating to security for obligations incurred under the Agreement, and notice of the occurrence of any default under the Agreement or any such instrument.

11. **Insolvency of Guarantor**. The adjudication of bankruptcy of any Guarantor shall not revoke this Guaranty. If any Guarantor shall be or become insolvent (however defined), then Franchisor shall have the right to declare immediately due and payable, and each Guarantor will forthwith pay to Franchisor on demand, the full amount of all of the obligations under the Agreement, whether due and payable or unmatured, until all of such obligations have been paid in full to Franchisor. If any of the Guarantors voluntarily commences or there is commenced involuntarily against any of the Guarantors a case under the United States Bankruptcy Code, the full amount of all the obligations, whether due and payable or unmatured, shall be immediately due and payable without demand or notice thereof.

12. **Miscellaneous.**

a. This Guaranty may be delegated or assigned by Franchisor, in any manner, without affecting any Guarantor's liability under this Guaranty. Guarantors may not assign or delegate any rights or duties owed under this Guaranty.

b. This Guaranty shall be effective upon delivery to Franchisor, without further act, condition or acceptance by Franchisor, is binding upon and enforceable against each Guarantor's heirs, legal representatives, successors and assigns and shall inure to the benefit of Franchisor, its successors and assigns.

c. This Guaranty is governed by the laws of the State of California. Each Guarantor consents to the jurisdiction of the courts of the State of California.

d. This Guaranty constitutes the entire agreement of the parties and supersedes any prior or contemporaneous agreements whether oral or written between them with respect to the subject matter hereof. This Guaranty may be changed if at all, only if agreed to in writing by all of the Guarantors and Franchisor.

e. If any provision of this Guaranty is invalid, illegal or unenforceable, such provision shall be considered severed from the rest of this Guaranty and the remaining provisions shall continue in full force and effect as if the invalid provision had not been included.

f. All notices, requests, demands, and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if sent by facsimile or if delivered by messenger or courier delivery, or sent by first class mail, postage prepaid, certified or registered, return receipt requested, as set forth below:

If to:_____:

If to:_____:

If to Franchisor:
Pizza Guys Franchises, Inc.
2731 Citrus Road, Ste. A
Rancho Cordova, CA 95742
Phone No.: 852-2222
Fax No.: 857-1100

g. **Waiver of Right to Jury Trial. THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS GUARANTY OR THE RELATIONSHIP ESTABLISHED HEREUNDER.**

h. Each Guarantor shall deliver to Franchisor all financial information concerning the Guarantor as may be requested by Franchisor, including without limitation, a current balance sheet of Guarantor and a statement of all income and expense for the twelve calendar months ended on the date of such balance sheet and monthly or less frequent updates of such financial information within seven (7) business days from (i) the date of this agreement and (ii) from the date of any request by Franchisor. Failure to comply with the financial information obligation set forth in this subparagraph (h) or material deterioration in the financial condition of any Guarantor, as determined by Franchisor, shall give Franchisor the right to demand immediate payment of the obligations from any one or more of the Guarantors as selected by Franchisor.

**GUARANTORS ACKNOWLEDGE THAT THEY HAVE READ AND UNDERSTOOD THE TERMS OF THIS GUARANTY, THEY HAD THE OPPORTUNITY TO BE OR WERE REPRESENTED BY INDEPENDENT COUNSEL PRIOR TO EXECUTING THIS GUARANTY, AND THEY HAVE RECEIVED A COPY OF THIS GUARANTY.**

"GUARANTORS"

Name of Guarantor _____

_____
Signature of Guarantor

Name of Guarantor _____

_____
Signature of Guarantor

**"Franchisor", the Beneficiary**

PIZZA GUYS FRANCHISES, INC.

By: _____
Shahpour Nejad, President

# EXHIBIT 2

# MULTI-UNIT DEVELOPMENT AGREEMENT

# MULTI-UNIT DEVELOPMENT AGREEMENT

THIS MULTI-UNIT DEVELOPMENT AGREEMENT (the "Agreement') is made this ____ day of _____, 20____ (the "Effective Date") and entered into by and between

**FRANCHISOR:** *and* **MULTI-UNIT OPERATOR:**

PIZZA GUYS FRANCHISES, INC.
2731 Citrus Road, Ste. A
Rancho Cordova, California 95742
(916) 852-2222

_____
(*Name)*
_____
*(Address)*

_____
*(City State Zip Code)*
_____
*(Telephone No. w/Area Code)*

## RECITALS

WHEREAS, We have invested substantial time, effort and money to develop a system of takeout and delivery only pizza stores, under the *Pizza Guys*® trade name, trademark and other commercial symbols according to our procedures, all of which we have developed and will continue to develop (referred to as the "franchise" or the "franchise system" as the context requires). To simplify language in this Agreement, "Pizza Guys Franchises, Inc." will generally be referred to as "us," "we" or "our" (and sometimes as "Franchisor"), and "you" and "your" (and sometimes "Multi-Unit Operator") will mean you, a person to whom we grant a franchise;

WHEREAS, You acknowledge that you have had an adequate opportunity to be thoroughly advised of the provisions of this Agreement and our Franchise Disclosure Document and have had sufficient time and opportunity to evaluate and investigate the System and the procedures and financial requirements associated with the System, as well as the competitive market in which it operates; and

WHEREAS, You desire to operate Franchised Businesses that have the right to develop and operate a designated number of Franchised Businesses under the Marks and the System within the geographical area (the "Development Area") defined below and set forth in Exhibit A pursuant to the development schedule (the "Development Schedule") defined and set forth below in Exhibit B;

WHEREAS, we wish to grant you the right to open and operate a designated number of Franchised Businesses in the Development Area, pursuant to the Development Schedule and subject to the terms, covenants and conditions set forth in this Agreement.

NOW THEREFORE, the parties, in consideration of the mutual undertakings and commitments set forth herein, the receipt and sufficiency of which are hereby acknowledged, agree as follows:

## 1. INCORPORATION OF RECITALS

1.1. **Incorporation of Recitals**. The recitals set forth above are true and correct and are hereby incorporated by reference into this Agreement.

## 2. GRANT OF MULTI-UNIT DEVELOPMENT RIGHTS

2.1. **Grant of Multi-Unit Development Rights**. We hereby grant to you, and you accept, subject to the terms and conditions of this Multi-Unit Development Agreement, the right to and obligation to develop, establish and operate _____ (_____) Franchised Businesses, and to use the System solely in connection therewith at specific locations we approve to be operated pursuant to the terms of separate franchise agreements (referred to individually as a "Franchise Agreement" and collectively as the "Franchise Agreements") executed between you (or an affiliate of you) and us as provided in Section 3.1 hereof, and pursuant to the Development Schedule established in Exhibit B of this Agreement. Each Franchised Business developed hereunder shall be located within the Development Area described in Exhibit A of this Agreement.

## 3. DEVELOPMENT AREA

3.1. **Territorial Grant**. You undertake to develop, own and operate the number of Franchised Businesses designated in Section 2.1 of this Agreement within the Development Area set forth by map or written description in Exhibit A to this Agreement. Pursuant to the Franchise Agreements which this Agreement contemplates will be entered into between you (or an affiliate of you) and us, your right to operate the Franchised Businesses will be limited to the Accepted Locations (as defined term is defined in the respective Franchise Agreement for such Franchised Business). We reserve the right to adjust or reassign any of the trade areas in the Development Area if we believe that this serves your best interest, or if there is a conflict with another multi-unit operator's or franchisee's trade area. We reserve the right to move that trade area to an unoccupied trade area.

3.2. **Our Restriction**. We, our affiliates, subsidiaries and designees (together, the "Affiliates") will not, except as provided in Section 3.3 ("Rights We Reserve"), operate company-owned businesses of the type contemplated by this Agreement and franchises under the Franchise Agreements, or enter into any other agreements granting others the right to own, develop or operate *Pizza Guys*® businesses within the Development Area, so long as you are not in default under this Agreement and all other related agreements. These restrictions will immediately terminate upon the expiration or sooner termination of this Agreement for any reason.

3.3. **Rights we Reserve**. You agree that we and/or our Affiliates may engage in any business activity whatsoever in or outside the Development Area except as we are restricted by Section 3.2 of this Agreement, and that this Agreement does not confer upon you any right to participate in or benefit from any such other business activity (regardless of whether it is conducted under the Proprietary Marks or not). Our rights to engage in other business activities are specifically reserved and may not be qualified or diminished in any way by implication. We thus may engage in, or authorize others to engage in, any form of business offering and selling any type of product or service except as restricted by Section 3.2 above. By way of example, we and/or our Affiliates may own, operate or authorize others to own or operate any type of business at any location whatsoever, including within your Development Area, so long as such other business does not sell under the Proprietary Marks the type of products or services which your Franchised Businesses offer and sell (except as permitted below). Further, we and/or our Affiliates may own, operate or authorize others to own or operate Franchised Businesses at any location outside of your

Development Area (including immediately proximate thereto).

In addition, you understand and agree that we and/or our Affiliates alone have the right to offer and sell within and outside your Development Area, and under the Proprietary Marks, any and all products or services and/or components thereof, (including those used or sold by your Franchised Businesses), and whether or not a part of Franchise System, through any alternate channels of distribution, that is, any method of distribution other than a Franchised Business situated within your Development Area including, without limitation, the internet/worldwide web; any other form of electronic commerce; "800" or similar toll-free telephone numbers; mail order; catalogs; television sales (including "infomercials"); or, any other channel of distribution whatsoever except for a *Pizza Guys*® business.

You also agree that we may purchase, merge, acquire, be acquired by or affiliate with an existing competitive or non-competitive franchise or non-franchise network, chain or any other business regardless of the location of that other business' facilities, and that following such activity we may operate, franchise or license those other businesses and/or facilities under any names or marks other than, while this Agreement is in effect, the Proprietary Marks, regardless of the location of these businesses and/or facilities, which may be within the Development Area or immediately proximate thereto.

You waive and release any claims, demands or damages arising from or related to any of the above activities and promise never to begin or join in any legal action or proceeding, or register a complaint with any governmental entity, directly or indirectly contending otherwise.

## 4. TERM AND RENEWAL

4.1. **Term**. Unless sooner terminated in accordance with the terms of this Agreement, the term ("Term") of this Agreement will commence on the Effective Date and ends on the actual the last Franchised Business is opened pursuant to the Development Schedule.

4.2. **Notice of Expiration**. If applicable law requires us to give notice of expiration to you at a specified time before the expiration of the Term of this Agreement, and we have not done so, then the Term of this Agreement will be extended on a month-to-month basis until we have given you the required notice of expiration and the required period before the expiration of the Agreement becomes effective has expired.

4.3. **Renewal**. This Agreement shall not be subject to renewal. Upon the termination or expiration of this Agreement, we and our affiliates shall have the right to develop and operate, and to grant to others development rights and franchises to develop and operate, Franchised Businesses within the Development Area subject only to the territorial rights granted to you with respect to Franchised Businesses operated by you pursuant to the Franchise Agreements.

## 5. DEVELOPMENT FEE

5.1. **Development Fee**. In consideration of the development rights granted herein, you shall pay to us simultaneously with the execution of this Agreement a Development Fee in the amount of _____ Thousand Dollars ($_____) ("Development Fee").

You recognize that we have incurred administrative and other expenses in relation to this Agreement, and that our development opportunities have been lost or curtailed as a result of the development rights granted to you herein. Therefore, the Development Fee shall be fully earned by us upon execution of this Agreement and shall not be refunded, in whole or in part, under any circumstance.

## 6. DEVELOPMENT SCHEDULE

6.1. **Development Schedule**. For as long as this Agreement is in effect and you are not in default under the terms of this Agreement or any Franchise Agreement, you will have the right and obligation to execute Franchise Agreements for and commence operations of Franchised Businesses pursuant to the Development Schedule set forth in Exhibit B. The Development Schedule sets forth the minimum number of Franchised Businesses that you must commence operating by the specified dates. You may not develop or commence operations of more than the number of Franchised Businesses set forth above without first obtaining our written consent. A Franchised Business will be considered "developed" if: (i) the Franchise Agreement for the Franchised Business has been signed by you (or an affiliate of you) and us; and (ii) the Franchised Business has commenced operations in accordance with the Franchise Agreement governing the Franchised Business.

6.2. **Failure to Fulfill Development Obligations**. Except as provided in Section 16.1 below ("Unavoidable Delay or Failure to Perform (Force Majeure)"), if you fail to adhere to the Development Schedule attached hereto as Exhibit B by either: (i) failing to execute the Franchise Agreement for each Franchised Business; or (ii) failing to commence operations of each Franchised Business on or before the date specified in the Development Schedule, then this will constitute a material breach of this Agreement. Notwithstanding the foregoing, if you fail to comply with the Development Schedule, we will have the right to: (i) reduce, in whole or in part, the size of the Development Area within which you will have rights; (ii) reduce, in whole or in part, the total number of Franchised Businesses that you will have the right to develop; or, (iii) terminate the Multi-Unit Development Agreement.

Termination of this Agreement for this reason will not be a termination (constructive or otherwise) of any Franchise Agreement(s) entered into by you (or an affiliate of you) and us thereunder; provided that you have already commenced the operation of the Franchised Business(es) covered by the Franchise Agreement(s) and you have fully performed and otherwise been in compliance with all of your obligations under the Franchise Agreement(s) in question. You will lose both the right to develop the undeveloped Franchised Businesses in the Development Area and the Development Fee attributable to the undeveloped Franchised Businesses, and we may operate or franchise Franchised Businesses anywhere within the Development Area without, in any way, being in violation of this Agreement. This remedy of ours will be in addition to whatever other remedies we may have at law or in equity.

6.3. **Time is of the Essence**. Subject to the provision of Section 16.1 below ("Unavoidable Delay or Failure to Perform (Force Majeure)"), your timely performance of your obligations under Section 6 of this Agreement is of material importance and is of the essence to this Agreement.

## 7. SELECTION OF SITES; FRANCHISE AGREEMENT

7.1. **Site Approval**. You shall assume all responsibility and expense for locating potential sites for Franchised Businesses and submit to us for our evaluation and approval, in the form specified by us, a description of the site, the terms of the lease or purchase, a market feasibility study for the site and such other information and materials as we may reasonably require, together with a letter of intent or other evidence satisfactory to us which confirms your favorable prospects for obtaining the site. We shall have thirty (30) days after receipt of such information and materials from you to approve or disapprove the site, which consent we will not unreasonably withhold or delay. If the site is approved, you will then be presented with the

Franchise Agreement for execution.

You acknowledge that the approval of a particular site for a Franchised Business by us shall not be deemed to be an assurance or guaranty that the Franchised Business will operate successfully or at a profit from such site.

7.2. **Execution of Franchise Agreement**. You and we will execute a Franchise Agreement for each Franchised Business provided for in the Development Schedule. The Franchise Agreement for the first Development Right exercised hereunder has been executed contemporaneously with this Agreement. The Franchise Agreement for each additional Development Right exercised hereunder shall be our then-current Franchise Agreement, modified as follows: (a) your Initial Franchise Fee (as defined in the Franchise Agreement) will be modified as specified in Section 5.1 above; and (b) the Royalty Fee (as defined in the Franchise Agreement), imposed on you by the Franchise Agreement will not be greater than those set forth in the first Franchise Agreement that you will sign (a copy of which is attached to this Agreement as Exhibit B).

The Franchise Agreement for each additional Franchised Business will be executed according to the following procedure:

7.2.1. Within a period of time we deem appropriate, we will deliver to you (if required under applicable law) a copy of our then-current Franchise Disclosure Document, including our then-current Franchise Agreement, modified as provided above (collectively, the "Franchise Disclosure Document").

7.2.2. Promptly upon receipt of the Franchise Disclosure Document, you must acknowledge receipt by executing the receipt form ("Receipt") prescribed in the Franchise Disclosure Document and promptly returning the Receipt to us.

7.2.3. No sooner than fourteen (14) business days, but no later than thirty (30) calendar days after you receive our Franchise Disclosure Document, you must, by written notice, notify us as to whether or not you elect to execute our then-current form of Franchise Agreement (modified as provided above) for the Franchised Business.

7.2.4. Promptly upon our receipt of your notice that you elect to execute our then-current form of Franchise Agreement (modified as provided above), we will deliver to you an execution copy of the Franchise Agreement. Promptly upon receipt of this execution copy, you must execute the it and return it to us.

7.2.5. If you fail to perform any of the acts or fail to deliver any of the notices required pursuant to the provisions of subsections (i), (ii), (iii) or (iv) above in a timely fashion, this will be a material and incurable breach of this Agreement which, unless we waive the breach, will entitle us to terminate this Agreement immediately on notice to you, with no opportunity to cure.

Under no circumstances, however, may you open a Franchised Business for business unless and until there is a fully executed Franchise Agreement in place for such Franchised Business and the applicable franchise fee has been paid in full.

## 8. OUR DUTIES

8.1. **Duties of Franchisor**. So long as you are not in default of this Agreement or the Franchise Agreements, we will grant you the right and obligation to acquire and operate Franchised Businesses in the Development Area and pursuant to the Development Schedule, upon the terms and subject to the provisions of this Agreement and the terms of each Franchise Agreement entered into between you and us and of all documents related to this Agreement and the Franchise Agreement, and to use solely and in connection with these Franchise Agreements. The System as

it may be changed, improved, modified or further developed from time to time, in the Development Area as defined in this Agreement and upon the terms and subject to the provisions of this Agreement and the terms of all documents related to this Agreement and the Franchise Agreements. We will review site survey information on sites you select for conformity to our standards and criteria for potential sites and, if the site meets our criteria, approve the site for development of a Franchised Business. Pursuant to the Franchise Agreements and under their terms, we will offer and perform the training, instruction, assistance and other activities for which the Franchise Agreements provide.

**9. YOUR DUTIES**

9.1. **Payments to Us**. In addition to all other payments under this Agreement, you agree to pay us (or our affiliates) immediately upon demand:

9.1.1. All sales taxes, trademark license taxes and any other taxes, imposed on, required to be collected, or paid by us or our affiliates (excluding any corporate income taxes imposed on us or our affiliates) because we or our affiliates have furnished services or products to you or collected any fee from you.

9.1.2. All amounts we advanced, or which we have paid, or for which we have become obligated to pay, on your behalf for any reason.

9.1.3. All amounts due to us (or our affiliates) for any other reason.

All payments due to us from you under this Agreement must be paid by check transmitted to our headquarters address, except that we reserve the right to require deposit of payments elsewhere and/or payment by wire transfer or other form of electronic funds transfer.

9.2. **Compliance with Franchise Agreements and Laws, Rules and Regulations**. You agree to abide by and faithfully adhere to the terms of each Franchise Agreement signed pursuant to this Agreement. You further agree to develop and operate the Franchised Businesses in strict compliance with all applicable laws, rules and regulations of all governmental authorities; to comply with all applicable wage, hour and other laws and regulations of the federal, state and local governments; to prepare and file all necessary tax returns; to pay all taxes imposed upon you related to the Franchised Businesses; and, to obtain and keep in good standing all necessary licenses, permits and other required forms of governmental approval required of you.

9.3. **Indemnification**. You hereby agree that you will, at your sole cost, at all times defend us, our affiliates, and the corporate affiliates, subsidiaries, successors, assigns and designees of each, and the respective directors, officers, employees, agents, attorneys, shareholders, designees, contractors and representatives of each (we and all others referenced above, the "Indemnitees"), and indemnify and hold harmless us and the other Indemnitees to the fullest extent permitted by law, from all claims, loss, liability and costs (including court costs, attorneys' fees and experts' fees) incurred in connection with any action, suit, proceeding, claim, demand, investigation, or formal or informal inquiry (regardless of whether reduced to judgment) or any settlement which actually or allegedly, directly or indirectly arises out of, is based upon, is a result of or is related to any of the following:

9.3.1. Claims of any type or nature advanced by or against you or any of your officers, directors, shareholders, partners, proprietors, management, agents, employees, affiliates representatives and contractors (or any third party acting on your behalf or at your direction) by a third party (or, as applicable, against a third party) or between or among themselves;

9.3.2. Your alleged or actual infringement or violation of any patent, trademark, service mark, copyright or other intellectual property or proprietary right owned or controlled by third

parties;

9.3.3. Your alleged or actual violation or breach of any contract, federal, state, local, foreign or other law, rule or regulation;

9.3.4. Libel, slander or any other form of defamation by you;

9.3.5. Your alleged or actual violation or breach of any warranty, representation, agreement or obligation set forth in this Agreement;

9.3.6. Your ownership and operation of your Franchised Businesses;

9.3.7. Your failure to pay (or withhold) when due any levies, taxes or assessments that you may be required by applicable law to pay (or withhold);

9.3.8. Any acts, errors, neglects or omissions by you and/or your officers, directors, shareholders, management, employees, agents, servants, contractors, partners, proprietors, affiliates or representatives (or any third party acting on your behalf or at your direction); or

9.3.9. Any damage to the property of you, us, any of our affiliates, or their, our or your officers, directors, management, agents, employees and contractors.

You agree to give us written notice of any such action, suit, proceeding, claim, demand, inquiry or investigation that could be the basis for a claim for indemnification by any Indemnitee within three (3) days of your actual or constructive knowledge of it. At your expense and risk, we may elect to assume (but under no circumstance will we be obligated to undertake) the defense and/or settlement of the action, suit, proceeding, claim, demand, inquiry or investigation. However, we will seek your advice and counsel and keep you informed with regard to the defense or contemplated settlements. Our undertaking of defense and/or settlement will in no way diminish your obligation to indemnify us and the other Indemnitees and to hold us and them harmless.

We will have the right, at any time we consider appropriate, to offer, order, consent or agree to settlements or take any other remedial or corrective actions we consider expedient with respect to the action, suit, proceeding, claim, demand, inquiry or investigation if, in our sole judgment, there are reasonable grounds to do so. Under no circumstances will we or the other Indemnitees be required to seek recovery from third parties or otherwise mitigate our or their losses to maintain a claim against you. You agree that any failure to pursue recovery from third parties or mitigate loss will in no way reduce the amounts recoverable by us or the other Indemnitees from you. The indemnification obligations of this Section 9.3 will survive the expiration or sooner termination of this Agreement.

9.4. **Business Entity Multi-Unit Operator Requirements**. In the event that you are a corporation or desire to conduct business in a corporate capacity, said corporate entity or assignment to a corporate entity (which may include a corporation, limited liability company or partnership) must receive our prior written approval and you agree to comply with the provisions hereinafter specified below. As a business entity, you must comply with the following requirements (which will also apply to any business entity assignee of yours):

9.4.1. You or those individuals disclosed on Exhibit C attached hereto shall be the legal and beneficial owner of not less than fifty-one percent (51%) of the outstanding equity of said entity and shall act as such entity's principal officer.

9.4.2. Furnish us with your articles of incorporation, bylaws, partnership, agreement, limited partnership agreement, limited liability company agreement and other governing documents; list of officers, directors, shareholders, partners (limited and general), proprietors or members (including type, number and percentage of interests held); the Confidentiality and Non-Competition Agreements required under Section 10.2; and any other documents we may reasonably request, and any amendments to them.

9.4.3. Confine your activities to the operation of your Franchised Businesses developed hereunder, and your governing documents must provide that your activities are confined exclusively to the operation of your Franchised Businesses developed hereunder.

9.4.4. Maintain stop transfer instructions against the transfer on the records of any of your equity securities, and not issue or have outstanding any securities on the face of which the following printed legend does legibly and conspicuously appear:

"The transfer of this security is subject to the terms and conditions of a Multi-Unit Development Agreement with Pizza Guys Franchising, Inc., dated _____. Reference is made to the provisions of this Multi-Unit Development Agreement and to the governing documents of this issuer. This certificate is not transferable and is not subject to sale, assignment, pledge, mortgage, encumbrance, or transfer, by operation of law or otherwise, without the prior written consent of Pizza Guys Franchising, Inc.."

9.4.5. Maintain a current list of all owners of record and all beneficial owners of any class of your capital stock, general or limited partnership interests, membership interests or similar interests, and furnish this list to us on request.

9.4.6. Ensure that your organizational documents expressly restrict the transfer (as defined in Section 11.2) of any direct or indirect ownership interest in you, including your equity interests, and provide that such documents may not be modified without our prior written consent.

The assignment to a corporate entity will not relieve you of personal liability to us for performance of any of the obligations under this Agreement. Any subsequent transfer of voting rights of the equity of the entity or assignee entity, and any transfer or issuance of equity of the entity or assignee entity shall be subject to our prior written approval. We agree that we will not unreasonably restrict the issuance or transfer of equity, provided that you comply with the provisions of Article 11 below, and provided that in no event shall any equity of such corporate entity or assignee corporate entity be sold, transferred or assigned to a business competitor of ours.

9.5. **Best Efforts; Cooperation with Us**. You agree to act in good faith and use your best efforts to comply with your obligations under this Agreement, and to cooperate with us in accomplishing the purposes of this Agreement.

9.6. **Your Participation in Operations; Multi-Unit Operations Directors**. You agree to devote your full time and efforts to the performance of your duties under this Agreement, and a failure to do so will constitute a material breach of this Agreement, which, unless cured as provided in Section 14.3 of this Agreement, will result in this Agreement being terminated in accordance therewith. Notwithstanding the foregoing, you acknowledge and agree that we may require you to, at all times employ, at your own expense, a designated operations director to oversee the day to day operations of all of your Franchised Businesses and to serve as our main point of daily contact with authorization to communicate directly with us and to make management decisions in connection with same (the "Multi-Unit Operations Director"). Should we require that you hire a Multi-Unit Operations Director, you acknowledge and agree that your proposed Multi-Unit Operations Director must satisfy our educational and business criteria, be approved by us in advance and complete our Initial Training Program. You further agree that you must arrange to have your Multi-Unit Operations Director execute our then-current form of Confidentiality and Non-Competition Agreement.

Upon the death, disability or termination of employment of the Multi-Unit Operations Director, for any cause or reason, you shall immediately notify us, and designate and obtain our prior written approval of an interim or acting Multi-Unit Operations Director and, no later than ninety (90) days following the death, disability or termination of the predecessor Multi-Unit

Operations Director, you must designate a successor Multi-Unit Operations Director. Each successor Multi-Unit Operations Director must be certified to manage multi-unit operations and attend and successfully complete our next scheduled Initial Training Program (as described in the first Franchise Agreement we sign for your first Franchised Business, attached hereto as Exhibit D). The failure to employ and train a successor Multi-Unit Operations Director shall constitute a material breach of this Agreement.

9.7. **Terrorism**. You represent and warrant to us that, as of the date of this Agreement and at all times during the Term hereof, and to your actual or constructive knowledge, neither you, any affiliate of yours, any individual or entity having a direct or indirect ownership interest in you or any such affiliate (including any shareholder, general partner, limited partner, member or any type of owner), any officer, director or management employee of any of the foregoing, nor any funding source you utilize is or will be identified on the list of the U.S. Treasury's Office of Foreign Assets Control (OFAC); is directly or indirectly owned or controlled by the government of any country that is subject to an embargo imposed by the United States government or by any individual that is subject to an embargo imposed by the United States government; is acting on behalf of any country or individual that is subject to such an embargo; or, is involved in business arrangements or other transactions with any country or individual that is subject to an embargo. You agree that you will immediately notify us in writing immediately upon the occurrence of any event which would render the foregoing representations and warranties incorrect. Notwithstanding anything to the contrary in this Agreement, you may not allow, effect or sustain any transfer, assignment or other disposition of this Agreement to a Specially Designated National or Blocked Person (as defined below) or to an entity in which a Specially Designated National or Blocked Person has an interest. For the purposes of this Agreement, "Specially Designated National or Blocked Person" means: (i) a person or entity designated by OFAC (or any successor officer agency of the U.S. government) from time to time as a "specially designated national or blocked person" or similar status; (ii) a person or entity described in Section 1 of U.S. Executive Order 13224, issued on September 23, 2001; or, (iii) a person or entity otherwise identified by any government or legal authority as a person with whom you (or any of your owners or affiliates) or we (or any of our owners or affiliates) are prohibited from transacting business.

You further agree that you will not hire, retain, employ or otherwise engage the services of any individual or entity in contravention of the Patriot Act; any law, rule or regulation pertaining to immigration or terrorism; or, any other legally prohibited individual or entity.

## 10. CONFIDENTIAL INFORMATION; COVENANTS NOT TO COMPETE

10.1. **Restrictions on Use of Confidential Information**. You agree that you will not, during the Term of this Agreement or thereafter, divulge to or use for the benefit of yourself or any other person(s), partnership, proprietorship, association, corporation or entity, any confidential information, knowledge or know-how concerning your or our systems of operation, programs, services, products, customers or practices and/or pertaining to the Franchised System which may be communicated to you. Any and all information, knowledge, know-how, techniques and information which we, our affiliates, or their respective officers, designate as confidential will be deemed confidential for the purposes of this Agreement, except information which you can demonstrate came to your attention before our disclosure or which, at or after the time of our disclosure to you, has become a part of the public domain through publication or communication by others.

10.2. **Covenants Not to Compete**

10.2.1. During the Term and any Renewal Term of this Agreement, you are prohibited from directly or indirectly engaging in any Competitive Business as a proprietor, partner, investor, shareholder, director, member, officer, manager, employee, principal, agent, adviser, or consultant. In addition, you agree not to divert any business that should be handled by your franchised business to any other person or entity.

10.2.2. For a continuous uninterrupted period commencing five (5) years immediately following the expiration, termination of or transfer of all your interest in this Agreement for any reason, except as otherwise approved in our sole and absolute discretion, you shall not, directly or indirectly, for yourself, or through, on behalf of or in conjunction with any person, persons, partnership, or corporation:

10.2.2.1. divert, or attempt to divert, any business or customer of the Franchised Business(es) hereunder to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Proprietary Marks or the System;

10.2.2.2. employ, or seek to employ, any person who is at that time or was within the preceding ninety (90) days employed by us, or by any other franchisee or multi-unit operator of ours, or otherwise directly or indirectly induce such person to leave that person's employment, except as may be permitted under any existing multi-unit development agreement or franchise agreement between us and you; or

10.2.2.3. own, maintain, operate, engage in, or have any financial or beneficial interest in (including any interest in corporations, partnerships, trusts, unincorporated associations or joint ventures), advise, assist or make loans to any Competitive Business, which business is, or is intended to be, located within: (a) your Development Area; (b) ten (10) miles of the perimeter of your Development Area; or (c) a ten (10) miles radius of the location of any *Pizza Guys*® business, then-existing or under development, in the System (whether company-owned, franchised or otherwise established and operated).

10.2.2.4. For the purposes of this Article 11, the term "Competitive Business" shall refer to any other business that primarily offers takeout and delivery pizza.

10.2.3. It is the intention of these provisions to preclude not only direct competition but also all forms of indirect competition, such as consultation for Competitive Businesses, service as an independent contractor for Competitive Businesses, or the provision of any assistance or transmission of information of any kind which would be of any material assistance to a competitor. Nothing in this Section will prevent you from owning for investment purposes no more than an aggregate of five percent (5%) of the capital stock of any Competitive Business you do not control and whose stock is listed on the New York Stock Exchange or the National Association of Securities Dealers Automated Quotation System. It is the intention of these provisions that any person or entity with any legal or beneficial interest in or traceable to or through you be bound by the provisions of this covenant.

10.2.4. You agree to obtain the execution of our Confidentiality and Non-Competition Agreement attached hereto as Exhibit E from the following persons and to cause them to refrain from the competitive activities described above: (i) before employment or any promotion: (1) your General Manager and Assistant General Managers; (2) any personnel you employ who have received or will receive training from us; (3) all your other managerial employees; and (4) any other persons to whom you grant access to Confidential Information; and (b) if you are a Business Entity, all your officers, directors, equity holders, members and those of any Business Entity

directly or indirectly controlling you, at the same time as the execution of this Agreement (or at such later time as they assume such status). You must furnish us with copies of all signed Confidentiality and Non-Competition Agreements no later than ten (10) days following their execution. You agree to prosecute to the fullest extent permitted by law breaches of any Confidentiality and Non-Competition Agreement executed pursuant to this Section 10.2 and you acknowledge our right, to be exercised in our sole business judgment, to ourselves enforce the terms of each executed Confidentiality and Non-Competition Agreement.

10.2.5. If all or any portion of the covenants not to compete set forth in this Article 10 are held unreasonable, void, vague or illegal by any court or agency with competent jurisdiction over the parties and subject matter, the court or agency will be empowered to revise and/or construe the covenants to fall within permissible legal limits, and should not by necessity invalidate the entire covenants. You agree to be bound by any lesser covenant subsumed within the terms of this Article 10 as if the resulting covenants were separately stated in and made a part of this Agreement.

10.3. **Enforcement of Confidentiality Covenant and Covenants Not to Compete**. You acknowledge that violation of the covenants in Section 10.1 and 10.2 of this Agreement would result in immediate and irreparable injury to us for which no adequate remedy at law will be available. You therefore consent to the entry of an injunction prohibiting any conduct by you in violation of the terms of these covenants, without the necessity of our posting any bond or security. You agree that it may conclusively be presumed that any violation of the terms of the covenants not to compete was accomplished by and through your unlawful use of our Confidential Information, know-how, methods and procedures. You also agree that any claims you may have against us, whether or not arising from this Agreement, will not constitute a defense to our enforcement of the covenants not to compete in this Agreement. You agree to pay all costs and expenses, including reasonable attorneys' and experts' fees that we incur, in connection with the enforcement of the covenants not to compete set forth in this Agreement.

## 11. TRANSFER OF INTEREST

11.1. **Transfer By Us**. We may transfer or assign this Agreement or any or all of the rights, interests, benefits or obligations arising under it without restriction. Upon any transfer or assignment of this Agreement by us, we will be released from all obligations and liabilities arising or accruing in connection with this Agreement after the date of such transfer or assignment

11.2. **Transfer By You – General**. This Agreement, and your rights and obligations under it, are and will remain personal to you. As used in this Agreement, the term "Transfer" will mean any sale, lease, assignment, gift, pledge, mortgage or any other encumbrance, transfer by bankruptcy, transfer by your disability or death or by judicial order, merger, consolidation, share exchange, transfer by operation of law or otherwise, whether direct or indirect, voluntary or involuntary, of this Agreement or any interest in it, or any rights or obligations arising under it, or of any material portion of your assets used to operate your Franchised Business, or of any interest in you, or if you are a corporation, partnership, limited liability company or other entity, a transfer, pledge, assignment, or other disposition of direct or indirect control or ownership of twenty-five percent (25%) or more of any interest in your entity. In addition, if there are two (2) individuals signing this Agreement as Franchisee, and one (1) of those individuals is no longer involved in the ownership of your Franchised Business, the withdrawal of that person will be considered a "Transfer." A "Transfer" will also be deemed to occur when there are more than two (2) people listed as the Franchisee and there is a change in the ownership of your Franchised Business such that less than a majority of the original signers continue to have a majority interest in the equity of

the business. Unless otherwise provided in this Agreement, we will not unreasonably withhold, delay or condition our consent to a Transfer, subject to all of the following conditions being satisfied:

11.2.1. you are in full compliance with this Agreement, you have no uncured defaults, and all your debts and financial obligations to us and our affiliates are current;

11.2.2. you provide us with all information we may require concerning the proposed transaction (including a copy of the purchase agreement and all related documents), and the proposed transferee;

11.2.3. we are satisfied that the proposed transferee (and if the proposed transferee is an entity, all holders of any interest in such entity) meets all of the requirements for our new Multi-Unit Operators, including, but not limited to, good reputation and character, business experience, and financial strength, credit rating and liquidity, and that the sale price is not excessive;

11.2.4. you sign a written agreement in a form satisfactory to us in which you and your investors covenant to observe all applicable post-term obligations and covenants contained in this Agreement and release us and our affiliates from any claims you may have against us, or any further obligations we may have to you;

11.2.5. the proposed transferee enters into a new Multi-Unit Development Agreement with us, on the terms we then generally offer to new Multi-Unit Operators (including fees payable and size of territory); provided, however, the term of that Multi-Unit Development Agreement, unless otherwise agreed, will be the remaining term of your Multi-Unit Development Agreement;

11.2.6. prior to the date of the proposed Transfer, the proposed transferee's Designated Principal successfully completes such training and instruction as we deem necessary;

11.2.7. you and all holders of an interest in you sign a general release, in the form prescribed by us, releasing, to the fullest extent permitted by law, all claims that you or any of your investors may have against us and our affiliates, including our and their respective shareholders, officers, directors and employees, in both their individual and corporate capacities; and

11.2.8. prior to the Transfer, you pay us a transfer fee of fifty percent (50%) of our then current initial franchise fee (the "Transfer Fee") to cover our reasonable costs in effecting the Transfer.

Our consent to a Transfer of any interest in you, this Agreement or in the development rights pursuant to this Section shall not constitute a waiver of any claims we may have against the transferring party, nor shall it be deemed a waiver of our right to demand exact compliance with any of the terms of this Agreement by the transferee.

11.3. **Transfer By You – To a Business Entity You Form**. We will not unreasonably withhold or delay our consent to your assignment to a business entity that you form solely for the convenience of entity ownership if all the following conditions are met: (i) the business entity is newly formed and each requirement in Sections 9.4 and 17.19 has been satisfied; (ii) each individual involved in the new entity has the same proportionate ownership interest in the new entity as he or she had in the Business before the assignment; (iii) you and the new entity sign an agreement with us under which you and the new entity are jointly and severally liable for all the obligations under this Agreement and bound by all the terms, conditions and covenants of this Agreement; (iv) each present and future equity holder in the new entity signs our Confidentiality and Non-Competition Agreement in the form of Exhibit E to this Agreement.

11.4. **Transfer By You – Transfer Upon Death or Disability**. Upon your death or long-term disability (if you are an individual) or the death or disability of your last surviving owner (if you are a business entity), that person's rights will pass to his or her estate, heirs, legatees,

guardians or representatives, as appropriate (collectively, the "Estate"). The executor, administrator or personal representative of the Estate shall transfer your or your last surviving owner's interest to a third party, subject to our approve and terms and conditions set forth in Section 11.2 above, within three (3) months of the date such executor, administrator or personal representative is appointed to represent the Estate.

Until an executor, administrator or personal representative is appointed to represent the Estate, the Estate will continue the operation of the Franchised Businesses, and the existing Multi-Unit Operations Director will continue to oversee the operations of the Franchised Businesses developed pursuant this Agreement until the executor, administrator or personal representative of the Estate has consummated the Transfer. If an Multi-Unit Operations Director has not been appointed and approved by us in accordance with Section 9.6, then the Estate must provide a competent and qualified individual acceptable to us to serve as the Multi-Unit Operations Director and assume oversight of the operations of the Franchised Businesses within one (1) month of the date of death or disability. If the Multi-Unit Operations Director has been approved by us, he or she will immediately assume, on a full-time basis, the oversight of the operations of the Franchised Businesses developed pursuant to this Agreement. If we reject the Estate's proposed Multi-Unit Operations Director, then the Estate will provide us with another proposed candidate for our consideration within fifteen (15) days of the date of our rejection. Once an acceptable Multi-Unit Operations Director has been approved by us, he or she will oversee the operations of the Franchised Businesses until the executor, administrator or personal representative of the Estate has consummated the Transfer of your or your last surviving owner's interest. If the Estate does not designate an Multi-Unit Operations Director or the Estate's Multi-Unit Operations Director does not assume full-time oversight of the operations of the Franchised Businesses within one (1) month from the date your or your last surviving owner's death or disability, this will be a material breach of this Agreement which, unless cured by the Estate as provided in Section 14.3, will result in this Agreement being terminated immediately.

Notwithstanding the foregoing, we may (but are under no obligation) to manage the operations of your Franchised Businesses developed hereunder, in order to prevent any interruption of the operations of your Franchised Businesses, which could cause harm to said businesses. Should we elect to exercise our right to manage your Franchised Businesses and/or your existing Franchised Businesses developed hereunder, then all monies from the operation of the Franchised Businesses shall be kept in separate accounts, and we will deduct our expenses for travel, lodging, meals and all other expenses and fees from each Franchised Businesses respective Gross Sales and also pay ourselves a management fee equal to ten percent (10%) of each Franchised Businesses monthly Gross Sales ("Management Fee"). This Management Fee will be in addition to any amounts due to us under each Franchised Businesses respective Franchise Agreement. We will then remit any remaining funds to the Estate. If we undertake the obligation to manage your Franchised Businesses developed pursuant to this Agreement, we will not be responsible for any operational losses of your Franchised Businesses, nor will we be obligated to continue operating your Franchised Businesses developed pursuant to this Agreement. You agree to indemnify and hold harmless us and any representative of ours who may act hereunder, from any and all acts which we may perform, as regards the interests of you or third parties.

11.5. **Our Right of First Refusal**. If you receive from an unaffiliated third party and desire to accept a bona fide written offer to purchase your development rights, your Franchised Businesses, any interest in the Franchised Businesses developed hereunder, you (if you are a business entity) (including any capital stock, membership, partnership or proprietary interest of

you or anyone who controls you) or any other interest hereunder, voluntarily or by operation of law (as provided above), such transfer shall be subject to our right of first refusal, except in the instance of your Transfer pursuant to Section 11.3, (the "Right of First Refusal"), which Right of First Refusal we may freely assign to any individual or entity. Should we elect to exercise our Right of First Refusal, we will exercise such right in the following manner:

11.5.1. You must deliver to us a true and complete copy of the proposed transferee's offer (the "Offer") including all its material terms and furnish to us any additional information concerning the proposed transaction and the proposed transferee that we reasonably request. In order that we may have information sufficient to enable us to determine whether to exercise this option, we may require you to deliver to us certified financial statements as of the end of your most recent fiscal year and such other information about your business and operations as we may request.

11.5.2. Within thirty (30) days after our receipt of the Offer (or, if we request additional information, within thirty (30) days after receipt of the additional information), we may either consent or withhold our consent to the Transfer, in accordance with this Article, or at our option accept the Transfer to ourselves or to our designee, on the terms and conditions specified in the Offer. If we or our designee accept the Transfer, we will be entitled to all of the customary representations and warranties given by the seller of development rights. Any dispute regarding the value of all or any part of the development rights proposed to be transferred and/or the consideration proposed to be paid or payable to you or any third party in connection with the proposed transfer shall be determined by a reputable independent appraiser we select, and you and we equally share the expense of, whose determination will be final and binding on us.

11.5.3. Our credit will be considered at least equal to the credit of any proposed transferee. We may substitute cash for the fair market value of any other form of payment proposed in the offer.

11.5.4. If we give notice of exercise of our Right of First Refusal, we will be given at least sixty (60) days after our notice to prepare for closing.

11.5.5. If we elect not to exercise our Right of First Refusal and we consent to the proposed Transfer, then you will, subject to the provisions of this Article, be free to assign this Agreement, your development rights, the Franchised Businesses developed hereunder, any interest in the Franchised Businesses developed hereunder or you to your proposed transferee on the terms and conditions specified in the Offer if you satisfy the conditions of Section 11.2 for our approval of a Transfer and if you close the transaction within sixty (60) days (or such further time as may be stipulated by law, rule or regulation). If, however, the terms specified in your notice are changed, the changed terms will be considered a new offer, and we will have an identical Right Of First Refusal with respect to this new offer. Further, if you fail to close the assignment transaction within sixty (60) days (or such further period of time as may be stipulated by applicable law, rule or regulation), then our Right Of First Refusal hereunder shall be restored and we may elect to exercise same within thirty (30) days thereafter.

Our election not to exercise our Right Of First Refusal with regard to any offer will not affect our Right Of First Refusal with regard to any later or modified offer. If we do not exercise our Right Of First Refusal, this will not constitute approval of the proposed transferee or the transaction itself. You and any proposed transfer must comply with all the criteria and procedures Transfer of this Agreement, your development rights, your Franchised Businesses developed hereunder, any interest in the Franchised Businesses developed hereunder or you as specified in this Article 11.

11.6. **No Encumbrance**. You will have no right to pledge, encumber, hypothecate or otherwise give any third party a security interest in this Agreement or the Franchise Agreements in any manner without our prior written permission, which we may withhold for any reason.

## 12. PROPRIETARY MARKS

12.1. **Not a License of the Proprietary Marks**. You acknowledge and agree that nothing contained in this Agreement will be deemed to constitute a license to you to use or display any of the Proprietary Marks in any manner. You will acquire a limited, non-exclusive license to use the Proprietary Marks only pursuant to, and to the extent that these rights are granted by, Franchise Agreements executed by you and us pursuant to this Agreement.

12.2. **Non-Use of Trade Name**. If you are a business entity, you may not use our Proprietary Marks or any confusingly similar words or symbols, in your entity name.

12.3. **Injunction**. You explicitly affirm and recognize the unique value and secondary meaning attached to the System and the Proprietary Marks. Accordingly, you agree that any non-compliance by you with the terms of this Agreement, or any unauthorized or improper use of System or the Proprietary Marks by you, will cause irreparable damage to us and other multi-unit operators and franchisees. You therefore agree that if you engage in this non-compliance, or unauthorized and/or improper use of System or the Proprietary Marks, during or after the period of this Agreement, we will be entitled to both temporary and permanent injunctive relief against you from any court of competent jurisdiction, in addition to all other remedies which we may have at law. You consent to the entry of these temporary and permanent injunctions without the requirement that we post a bond of any type or nature, or any other form of security, and without the requirement to prove the adequacy of money damages as a remedy, and without waiving any other rights or remedies at law or in equity. You will be responsible for payment of all costs and expenses, including reasonable attorneys' and expert fees, which we and/or our affiliates may incur in connection with our efforts to secure such injunctive relief.

## 13. RELATIONSHIP OF THE PARTIES

13.1. **Contractor; No Third Party Beneficiaries**. It is understood and agreed by the parties hereto that this Agreement does not create a fiduciary relationship between them. You are and will be our independent contractor under this Agreement. Nothing in this Agreement may be construed to create a partnership, joint venture, agency, employment or fiduciary relationship of any kind. Neither you nor any of your employees whose compensation you pay may in any way, directly or indirectly, expressly or by implication, be construed to be our employee for any purpose. You will be solely responsible for your employees and all employment related decisions, including, without limitation, decisions concerning wages and benefits, hiring and discharging, training and supervision and work schedules of employees. You are not empowered to, and may not, make any express or implied agreements, warranties, guarantees or representations or incur any debt or other obligations in our name or for our account (or for those of any of our affiliates). Except as expressly provided in this Agreement, we will have no control or access to your funds or their expenditure or in any other way exercise control over your Businesses.

You agree to conspicuously identify yourself, your Franchised Businesses, and any other facilities of your Franchised Businesses in all dealings with third parties as an independent contractor and to place notice of independent ownership on all forms, business cards, stationery, advertising, signs and other materials in the manner that we specify and require from time to time, in our Manual or otherwise.

All of our obligations under this Agreement are to you alone and no other party is entitled to rely on, enforce or obtain relief for breach of any of our obligations hereunder, either directly or by subrogation.

13.2. **Your Required Means of Identification**. You agree that you will do business and be identified as a Multi-Unit Operator, but not an agent of, Franchisor.

## 14. DEFAULT AND TERMINATION

14.1. **Termination By Us – Automatic Termination Without Notice**. You will be in default of this Agreement, and all rights granted in this Agreement will immediately and automatically terminate and revert to us without notice to you, if: you or your Franchised Business is adjudicated as bankrupt or insolvent; all or a substantial part of the assets thereof are assigned to or for the benefit of any creditor; a petition in bankruptcy is filed by or against you, the Franchised Businesses developed hereunder and is not immediately contested and/or dismissed within sixty (60) days from filing; a bill in equity or other proceeding for the appointment of a receiver or other custodian of you, any of the Franchised Businesses developed hereunder or assets of such businesses is filed and consented to by you; a receiver or other custodian (permanent or temporary) of all or part of your assets or property is appointed by any court of competent jurisdiction; proceedings for a composition with creditors under any state or federal law are instituted by or against you, any of the Franchised Businesses developed hereunder; you are dissolved; execution is levied against you, any of the Franchised Businesses or your property; or, the real or personal property of or any of the Franchised Businesses is sold after levy thereon by any governmental body or agency, sheriff, marshal or constable.

14.2. **Termination By Us Upon Notice – No Opportunity To Cure**. You will have materially breached this Agreement and we will have the right to terminate this Agreement and all rights granted under this Agreement, without giving you any opportunity to cure the breach, effective immediately upon your receipt of notice (which, whether sent by certified mail, registered mail, overnight courier or personal physical delivery, will be deemed to have been received by you upon delivery or first attempted delivery of the notice to you) upon the occurrence of any of the following events:

14.2.1. You fail to meet the Development Schedule.

14.2.2. You omit or misrepresent any material fact in the information that you furnished to us in connection with our decision to enter into this Agreement, approve any site for your Franchised Businesses or enter into a Franchise Agreement for any Franchised Business.

14.2.3. We and you agree in writing to terminate this Agreement.

14.2.4. You (or any principal of a corporate, partnership, proprietorship or other entity multi-unit operator) are convicted of a felony, fraud, crime involving moral turpitude, or any other crime or offense which we reasonably believe is related to your duties under this Agreement and/or your operation of any of the Franchised Businesses, or is likely to have an adverse effect on the System, the Proprietary Marks, the goodwill associated with the Proprietary Marks or our interest in the System or Proprietary Marks.

14.2.5. You (or any principal of a corporate, partnership, proprietorship or other entity franchisee) purport to transfer any rights or obligations under this Agreement, any interest in you or any of the Franchised Businesses to any third party in violation of the terms of this Agreement.

14.2.6. You do not comply with the covenant not to compete during the term of this Agreement; violate the restrictions pertaining to the use of Confidential Information contained in this Agreement; or, do not obtain the execution of the additional covenants required in Article 10

of this Agreement.

14.2.7. You fail to obtain our prior written approval, including, but not limited to, site approval, as expressly required by this Agreement.

14.2.8. You use or duplicate any aspect of our System, services, programs or products in an unauthorized fashion.

14.2.9. If you, or any shareholder or principal, if you are corporate entity, or any of your affiliates cease to operate all of the Franchised Businesses opened pursuant to the terms of this Agreement.

14.2.10. If you open any Franchised Business for business before a Franchise Agreement for such Franchised Business has been fully executed and the initial franchise fee due to us has been paid.

14.2.11. You engage in any business or market any service or product under a name or mark which, in our opinion, is confusingly similar to our Proprietary Marks.

14.2.12. You engage in conduct which reflects materially and unfavorably upon the operation and reputation of the Franchised Businesses, us or the System.

14.3. **Termination By Us – Fifteen Days to Cure**. Except as specifically provided elsewhere in this Agreement, you will have fifteen (15) calendar days following our delivery of written notice to you to cure any default under this Agreement and provide us with evidence that you have done so. If you have not cured any default within that time, this Agreement will terminate immediately upon expiration of the fifteen (15) day period, unless we otherwise agree in writing. You will be in default of this Agreement for any failure to comply with any of your obligations under this Agreement.

14.4. **Description of Default**. The description of any default in any notice that we transmit to you will in no way preclude us from specifying additional or supplemental defaults under this Agreement or any related agreements in any action, proceeding, hearing or lawsuit relating to this Agreement or the termination of this Agreement.

14.5. **Cross Default**. Any default or breach by you (or any of your affiliates) of any other agreement between us or our Affiliates and you (or any of your affiliates) will be considered a default under this Agreement, and any default or breach of this Agreement by you will be considered a default or breach under any and all other agreements between us (or any of our Affiliates) and you (or any of your affiliates). If the nature of the default under any other agreement would have permitted us to terminate this Agreement if the default had occurred under this Agreement, then we (or our Affiliate) will have the right to terminate all the other agreements between us (or any of our Affiliates) and you (or any of your affiliates) in the same manner provided for in this Agreement for of this Agreement. Your "affiliates" include any persons or entities controlling, controlled by, or under common control with you.

14.6. **Notice Required By Law**. If any valid, applicable law or regulation of a competent governmental authority with jurisdiction over this Agreement or the parties to this Agreement limits our rights of termination under this Agreement or requires longer notice or cure periods than those set forth above, then this Agreement will be considered modified to conform to the minimum notice, cure periods or restrictions upon termination required by the laws and regulations. We will not, however, be precluded from contesting the validity, enforceability or application of the laws or regulations in any action, proceeding, hearing or dispute relating to this Agreement or the termination of this Agreement.

## 15. OTHER OBLIGATIONS AND RIGHTS ON TERMINATION OR EXPIRATION

15.1. **Other Obligations and Rights on Termination or Expiration**. The termination of this Agreement upon breach of your development obligations, as set forth in Exhibit B, will not terminate any of the Franchise Agreements executed by you before the effective date of termination of this Agreement and for which you have already commenced the Franchised Business(es) covered by the Franchise Agreement(s), but after the effective date of the termination, you will have no right to develop or operate any additional Franchised Business without first obtaining our express written consent, which we may withhold without cause.

Upon expiration or earlier termination of this Agreement for whatever reason, you agree to:

15.1.1. Immediately pay all sums due and owing to us or our affiliates, plus interest, and all sums due and owing to any landlord, employees, taxing authorities, advertising agencies and all other third parties.

15.1.2. If we terminate because of your default, pay us all losses and expenses we incur as a result of the default or termination, including all damages, costs, and expenses, and reasonable attorneys' and experts' fees directly or indirectly related thereto, such as (without limitation) lost profits, lost opportunities, damage inuring to our Proprietary Marks and reputation, travel and personnel costs and the cost of securing a new multi-unit operator for the Development Area. This obligation will give rise to and remain, until paid in full, a lien in our favor against any and all of assets, property, furnishings, equipment, signs, fixtures and inventory owned by you and any of the Franchised Businesses at the time of termination and against any of your money which we are holding or which is otherwise in our possession.

15.1.3. Immediately execute all agreements necessary to effectuate the termination in a prompt and timely manner.

15.1.4. Strictly comply with the post-termination/post-expiration covenants not to compete set forth in Article 10 of this Agreement.

15.1.5. Continue to abide by those restrictions pertaining to the use of our Confidential Information, trade secrets and know-how set forth in Article 10 of this Agreement.

15.2. **No Prejudice**. The expiration or termination of this Agreement will be without prejudice to our rights against you, and will not relieve you of any of your obligations to us at the time of expiration or termination, or terminate your obligations which by their nature survive the expiration or termination of this Agreement.

## 16. UNAVOIDABLE DELAY OR FAILURE TO PERFORM

16.1. **Unavoidable Delay or Failure to Perform (Force Majeure)**. Any delay in our or your performance of any duties under this Agreement, or any non-performance of such duties, that is not your or our fault (as applicable) or within your or our reasonable control – including, but not limited to, fire; floods, natural disasters; Acts of God; war; civil commotion; any governmental act or regulation; any delays or defaults in deliveries by common carriers and/or postal services and/or overnight couriers; computer network outages; late deliveries or non-deliveries of goods or non-furnishing of services by third party vendors; strikes; and any other similar event beyond such party's control) will not constitute a breach or cause a default under this Agreement, provided, however, that we or you (as applicable) will take all steps reasonably possible to mitigate damages caused by such failure or delay.

Upon the occurrence of any event of the type referred to herein, the party affected thereby shall give prompt notice thereof to the other parties, together with a description of the event, the

duration for which the party expects its ability to comply with the provisions of the Agreement to be affected thereby and a plan for resuming operation under the Agreement, which the party shall promptly undertake and maintain with due diligence. Such affected party shall be liable for failure to give timely notice only to the extent of damage actually caused.

Notwithstanding the foregoing, if any such failure or delay continues for more than one hundred eighty (180) days, we will have the right at any time thereafter during the continuance of such failure or delay to terminate this Agreement upon thirty (30) days' advance written notice to you.

**17. MISCELLANEOUS**

17.1. **Waiver and Delay**. No waiver or delay in either party's enforcement of any breach of any term, covenant or condition of this Agreement will be construed as a waiver by that party of any preceding or succeeding breach, or any other term, covenant or condition of this Agreement. Without limiting any of the foregoing, the acceptance of any payment specified to be paid by you under this Agreement will not be, nor be construed to be, a waiver of any breach of any term, covenant or condition of this Agreement.

17.2. **Notice of Our Alleged Breach**. You agree to give us immediate written notice of any alleged breach or violation of this Agreement after you have constructive or actual knowledge of, believe, determine or are of the opinion that there has been an alleged breach of this Agreement by us, including any acts of misfeasance or nonfeasance. If you do not give written notice to us of any alleged breach of this Agreement within one year from the date that you have knowledge of, believe, determine or are of the opinion that there has been an alleged breach by us, then our alleged breach will be considered to be condoned, approved and waived by you and will not be considered to be a breach of this Agreement by us, and you will be permanently barred from commencing any action against us for the alleged breach or violation.

17.3. **Our Right To Cure Defaults**. In addition to all other remedies granted pursuant to this Agreement, if you default in the performance of any of your obligations, or breach any term or condition of this Agreement or any related agreement, then we may, at our election, immediately or at any time thereafter, without waiving any claim for breach under this Agreement and without notice to you, cure the default on your behalf. Our cost of curing the default and all related expenses will be due and payable by you on demand.

17.4. **Our Withholding of Consent – Your Exclusive Remedy**. If you make any claim or assertion that we have unreasonably withheld or delayed any consent or approval to a proposed act by you under the terms of this Agreement, you agree that your sole remedy for the claim will be an action or proceeding to enforce the Agreement provisions, for specific performance or for declaratory judgment.

17.5. **Integration of Agreement; No Oral Agreements or Representations**. Neither you nor we wish to enter into a business relationship with the other in which any terms or obligations are the subject of alleged oral statements or in which oral statements serve as the basis for creating rights or obligations different than or supplementary to the rights and obligations set forth herein. Accordingly, you and we agree that this Agreement, all Exhibits to this Agreement and all related agreements signed at the same time as this Agreement: (a) constitute the entire agreement between the parties with reference to the subject matter of this Agreement and supersede any and all prior negotiations, understandings, representations and agreements, and (b) supersede and cancel any prior and/or contemporaneous oral or written communications (whether described as representations, inducements, promises, agreements or any other term) between you or anyone

acting on your behalf and us or anyone acting on our behalf, which might be taken to constitute agreements, representations, inducements, promises or understandings (or any equivalent to such terms) with respect to the relationship between the parties with respect to the subject matter hereof and that no reliance is being or will be placed on any such written or oral communications; provided, however, that nothing in this or in any related agreement is intended to disclaim the representations we made in the Franchise Disclosure Document that we provided to you.

No change, modification, amendment or waiver of any of the provisions of this Agreement will be effective and binding upon either party unless it is in writing, specifically identified as an amendment to this Agreement or waiver of any of the provisions of this Agreement, and signed by the party against whom enforcement of such writing is sought.

17.6. **Notices**. Any notice required or permitted to be given under this Agreement must be in writing; must be delivered to the other party either personally, by certified mail (return receipt requested, postage prepaid), or by documented overnight delivery with a reputable carrier; and, will be effective on the date that delivery is documented to have been first attempted. Any notice to us will be addressed to us at:

Notices to Franchisor: Pizza Guys Franchises, Inc.
2731 Citrus Road, Suite A
Rancho Cordova, CA 95742

Any notice to you will be addressed to your address as set forth on the first page of this Agreement. Either party to this Agreement may, in writing, on ten (10) days' notice, inform the other of a new or changed address or addressee(s) to which notices under this Agreement should be sent. We may provide any notice under this Agreement (including, without limitation, any notice of termination) sufficiently in advance of any event to permit compliance with any notice requirements under state or other laws.

17.7. **Execution, Construction and Interpretation; Further Acts**.

17.7.1. This Agreement may be executed in multiple counterparts, each of which will be considered an original and all of which together will constitute one and the same instrument. Facsimile execution signatures will be considered as binding and conclusive as if original, provided, however, that any party so executing must use all commercially reasonable efforts to furnish to the other party(ies) the originally executed document(s) at the earliest opportunity.

17.7.2. The titles and subtitles of the various articles and sections of this Agreement are inserted for convenience and will not affect the meaning or construction of any of the terms, provisions, covenants and conditions of this Agreement. The language of this Agreement will in all cases be construed simply according to its fair and plain meaning and not strictly for or against us or you.

17.7.3. It is agreed that if any provision of this Agreement is capable of two constructions, one of which would render the provision void and the other of which would render the provision valid, then the provision will have the meaning which renders it valid.

17.7.4. The parties agree to execute all other documents and perform all further acts necessary or desirable to carry out the purposes of this Agreement.

17.7.5. Each reference in this Agreement to a corporation or partnership will also refer to a limited liability company, general or limited partnership, and any other entity or similar organization. Each reference to the organizational documents, shareholders, directors, officers and stock of a corporation in this Agreement will also refer to the functional equivalents of the

organizational documents, shareholders, directors, officers and voting and/or equity rights, as applicable, in the case of a limited liability company, general partnership, limited partnership or any other entity or similar organization (this specifically includes members and managers, general and limited partners, membership interests and general and limited partnership interests).

17.8. **Business Judgment**. You and we recognize, and any mediator or judge is affirmatively advised, that certain provisions of this Agreement describe our right to take (or refrain from taking) certain actions in the exercise of our business judgment based on our assessment of the overall best interests of the System. Where such discretion has been exercised, and is supported by our business judgment, neither a mediator nor a judge may substitute his or her judgment for the judgment we have so exercised. "Business judgment" is a defined term for the purposes of this Agreement and is not intended to incorporate principles related to the application of any business judgment rule in a corporate law context.

17.9. **Exercise of Rights**. You understand and agree that whenever we have reserved a right in this Agreement, we have the uncontrolled and unfettered right to do what we have reserved.

17.10. **Severability**. Nothing contained in this Agreement may be construed as requiring the commission of any act contrary to law. Whenever there is any conflict between any provision of this Agreement and any present or future statute, law, ordinance or regulation required to be made applicable to this Agreement, the latter will prevail, but the affected provision of this Agreement will be curtailed and limited only to the extent necessary to bring it within the requirement of the law. If any article, section, sentence or clause of this Agreement is held to be indefinite, invalid or otherwise unenforceable, the entire Agreement will not fail for this reason, and the balance of the Agreement will continue in full force and effect. If any court of competent jurisdiction deems any provision of this Agreement (other than for the payment of money) so unreasonable as to be unenforceable as a matter of law, the court may declare a reasonable modification of this Agreement and this Agreement will be valid and enforceable, and the parties agree to be bound by and perform this Agreement as so modified.

17.11. **Attorneys' Fees and Costs of Enforcement**. The prevailing party will be entitled to recover from the other party reasonable attorneys' fees, experts' fees, court costs and all other expenses of litigation in any action instituted against the other party to secure or protect the prevailing party's rights under this Agreement, to enforce the terms of this Agreement, or in any action commenced or joined in by the other party against the prevailing party.

17.12. **Attorneys' Fees – Third Party Actions**. If we become a party to any action or proceeding commenced or instituted against us by a third party arising out of or relating to any claimed or actual act, error or omission of yours and/or any of your officers, directors, shareholders, management, employees, contractors and/or representatives, your Franchised Business by virtue of statutory, "vicarious", "principal/agent" or other liabilities asserted against or imposed on us as a result of our status as Franchisor; or if we become a party to any litigation or any insolvency proceeding involving you pursuant to any bankruptcy or insolvency code (including any adversary proceedings in conjunction with bankruptcy or insolvency proceedings), then you will be liable to, and must promptly reimburse us for, the reasonable attorneys' fees, experts' fees, court costs, travel and lodging costs and all other expenses we incur in such action or proceeding regardless of whether such action or proceeding proceeds to judgment. In addition, we will be entitled to add all costs of collection, interest, attorneys' fees and experts' fees to our proof of claim in any insolvency or bankruptcy proceeding you file.

17.13. **Governing Law**. This Agreement; all relations between the parties; and, any and all disputes between the parties, whether sounding in contract, tort, or otherwise, is to be

exclusively construed in accordance with and/or governed by (as applicable) the law of the State of California without recourse to California (or any other) choice of law or conflicts of law principles. If, however, any provision of this Agreement would not be enforceable under the laws of California, and if the Franchised Business(es) is located outside of California and the provision would be enforceable under the laws of the state in which the Franchised Business(es) is located, then the provision (and only that provision) will be interpreted and construed under the laws of that state. Nothing in this Section 17.13 is intended to invoke the application of any franchise registration and disclosure, franchise relationship, business opportunity, antitrust, "implied covenant", unfair competition, fiduciary or any other doctrine of law of the State of California, or any other state, which given its jurisdictional scope (and absent this choice of law provision) would not otherwise apply, and Multi-Unit Operator agrees to never contend otherwise.

17.14. **Venue**. Any litigation arising out of or related to this Agreement; any breach of this Agreement; the relations between the parties; and, any and all disputes between the parties, whether sounding in contract, tort, or otherwise, will be instituted exclusively in a court of competent jurisdiction in Sacramento, California. You agree that any dispute as to the venue for this litigation will be submitted to and resolved exclusively by a state of federal court of competent jurisdiction situated in state, county and judicial district in Sacramento, California. You (and your affiliates, and the owners, members, officers, directors or managers of each of the foregoing) hereby irrevocably submit themselves to the jurisdiction of any such court and waive all questions of personal jurisdiction for the purpose of carrying out this provision. You, on behalf of yourself and your affiliates, and the owners, members, officers, directors or managers of each of the foregoing, hereby waive and covenant never to assert or claim that the venue designated for litigation by this Agreement is for any reason improper, inconvenient, prejudicial or otherwise inappropriate (including any claim under the judicial doctrine of "forum non conveniens"). The parties agree that this Section 17.14 shall not be construed as preventing either party from removing an action or proceeding from state to federal court. Notwithstanding the foregoing, however, with respect to any action for monies owed, injunctive or other extraordinary or equitable relief, or involving possession or disposition of, or other relief relating to, your Franchised Business, we may bring such an action in any state or federal district court which has jurisdiction.

17.15. **Waiver of Jury Trial**. The parties to this Agreement (as denominated in the preamble hereto) explicitly waive their respective rights to a jury trial in any litigation between them and hereby stipulate that any such trial shall occur without a jury.

17.16. **Punitive Damages**. In no event will we be liable to you for punitive, exemplary, incidental, indirect, special, consequential or other similar damages in any action or proceeding arising out of or relating to this Agreement; any breach, termination, cancellation or non-renewal of this Agreement; or, in any other action or proceeding whatsoever between the parties to this Agreement and/or any of their affiliates. You hereby waive and covenant never to advance any such claim for punitive damages. You (and your affiliates, and the owners, members, officers, directors or managers) agree that in the event of a dispute, you and they shall be limited to the recover from us any actual damages sustained by you or them.

17.17. **No Consolidated or Class Actions**. You (and your affiliates, owners, members, officers, directors or managers) may only pursue any claim you have against us or our Affiliates in an individual legal action or proceeding. Neither you nor any of your affiliates, owners, members, officers, directors or managers shall join or combine its/their legal action or proceeding in any manner with any action or claim of any other multi-unit operator, franchisee or other claimant, nor will you or your affiliates, owners, members, officers, directors or managers maintain

any action or proceeding against us or our Affiliates, owners, members, officers, directors or managers in a class action, whether as a representative or as a member of a class or purported class, nor will you or your affiliates, owners, members, officers, directors or managers seek to consolidate, or consent to the consolidation of, all or part of any action or proceeding by any of them against us or our affiliates, owners, members, officers, directors or managers with any other litigation against us or our affiliates, owners, members, officers, directors or managers.

17.18. **Limitations of Actions**. Any and all legal actions or proceedings brought by you against us or our Affiliates, owners, members, officers, directors or managers arising out of or related to this Agreement, the Franchised Business(es) or any related agreement; any breach of this Agreement or any related agreement; the relations between such parties; and, any and all disputes between such parties, whether sounding in law or equity, must be commenced within two (2) years from the occurrence of the acts, errors and/or omissions giving rise to such legal action or proceeding. If not, then you irrevocably covenant and agree that such action or proceeding shall be barred.

17.19. **Guarantee**. If you are a business entity, the following persons must sign our standard form Guarantee, attached hereto as Exhibit F, at the same time as the execution of this Agreement or at such later time as they assume such status: (i) if you are a corporation or limited liability company, all shareholders or members (as applicable) owning 5% or more of your issued and outstanding stock or membership interests, as applicable; (ii) if you are a partnership, all general partners owning a 5% or greater interest in you; and, (iii) if you are a limited partnership, the general partner and all shareholders owning a 5% or greater interest in the general partner.

If you are in breach or default under this Agreement, we may proceed directly against each such individual and/or entity (each, a guarantor) without first proceeding against you and without proceeding against or naming in the suit any other guarantors. Your obligations and those of each guarantor will be joint and several. Notice to or demand upon guarantor will be considered notice to or demand upon you and all guarantors, and no notice or demand need be made to or upon all guarantor. The cessation of or release from liability of you or any guarantor will not relieve any other guarantor from liability under this Agreement, except to the extent that the breach or default has been remedied or money owed has been paid.

17.20. **Survival**. Any provision of this Agreement which imposes an obligation following the termination or expiration of this Agreement will survive the termination or expiration and will continue to be binding upon the parties to this Agreement. This Agreement will be binding upon and inure to the benefit of the parties, their heirs, successors and assigns.

17.21. **No Third Party Beneficiaries**. This Agreement is entered into solely between you and us. Other than our Affiliates or as expressly set forth in this Agreement, there is no intended third party beneficiary of this Agreement and you agree that none is to be presumed or deemed to exist.

17.22. **Execution in Multiple Counterparts**. This Agreement may be executed in multiple counterparts, each of which when so executed shall be an original, and all of which shall constitute one and the same instrument. Electronic and facsimile signatures will be considered as binding and conclusive as if original.

17.23. **Joint and Several Obligations**. All references herein to the masculine, neuter or singular shall be construed to include the masculine, feminine, neuter or plural, where applicable. If Multi-Unit Operator consists of more than one person or entity, or a combination thereof, the obligations and liabilities of each such person or entity to us under this Agreement are joint and several.

17.24. **Rights and Remedies Cumulative**. All rights and remedies of the parties to this Agreement shall be cumulative and not alternative, in addition to and not exclusive of any other rights or remedies which are provided for herein or which may be available at law or in equity in case of any breach, failure or default or threatened breach, failure or default of any term, provision or condition of this Agreement or any other agreement between you or any of your affiliates and us. The rights and remedies of the parties to this Agreement shall be continuing and shall not be exhausted by any one or more uses thereof, and may be exercised at any time or from time to time as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or taken at any time and from time to time. The expiration, earlier termination or exercise of our rights pursuant to Article 17 of this Agreement shall not discharge or release you from any liability or obligation then accrued, or any liability or obligation continuing beyond, or arising out of, the expiration, the earlier termination or the exercise of such rights under this Agreement.

17.25. **Multi-State Addendum**. The parties hereby incorporate herein the state addenda, in the form attached to this Agreement.

17.26. **Your Additional Acknowledgments**. You acknowledge, warrant and represent to us that:

17.26.1. No representation has been made, and neither you nor any of your affiliates has relied on any statement made by us or our affiliates (or any of our or their employees, directors, officers, agents or salespersons), as to (a) the future or past income, expenses, sales volume or potential profitability, earnings or income of your Franchised Businesses or any other franchised or company-owned business; (b) our anticipated income, earnings and growth or that of the System; or, (c) your ability to procure any required license or permit that may be necessary to operate your Franchised Businesses.

17.26.2. Before executing this Agreement, you have had the opportunity to contact all our existing multi-unit operators and franchisees.

17.26.3. You have had the opportunity to independently investigate, analyze and construe both the business opportunity being offered under this Agreement, and the terms and provisions of this Agreement, using the services of legal counsel, accountants or other advisers (if you so elect) of your own choosing. You have been advised to consult with your own advisers with respect to the legal, financial and other aspects of this Agreement, the *Pizza Guys*® Businesses, and the prospects for those *Pizza Guys*® Businesses. You have either consulted with these advisors or have deliberately declined to do so.

17.26.4. You have received from us a copy of our Franchise Disclosure Document at least fourteen calendar days before the execution of this Agreement or at least fourteen calendar days before the payment by you to us of any consideration in connection with the sale or proposed sale of the area franchise granted by this Agreement.

17.26.5. You have carefully considered the nature and extent of the restrictions upon you and the rights and remedies conferred upon you under this Agreement. Such restrictions, rights and remedies: (1) are reasonable, including, but not limited to, their term and geographic scope; (2) are designed to preclude competition which would be unfair to us; (3) are fully required to protect our legitimate business interests; and, do not confer benefits upon us that are disproportionate to your detriment.

17.26.6. You affirm that all information set forth in all applications, financial statements and submissions to us are true, complete and accurate in all respects, and you expressly acknowledge that we are relying on the truthfulness, completeness and accuracy of this

information.

**18. SUBMISSION OF AGREEMENT**

18.1. **Submission of Agreement**. The submission of this Agreement to you does not constitute an offer. This Agreement will become effective only upon the execution of this Agreement by both us and you. Our date of execution will be considered the date of execution of this Agreement.

THIS AGREEMENT WILL NOT BE BINDING ON US UNLESS AND UNTIL IT HAS BEEN ACCEPTED AND SIGNED BY AN AUTHORIZED OFFICER OF OURS.

YOU ACKNOWLEDGE THAT NO REPRESENTATIONS OR PROMISES WERE MADE TO YOU OTHER THAN THOSE SET FORTH IN OUR FRANCHISE DISCLOSURE DOCUMENT, OR THAT IF ANY OTHER REPRESENTATIONS OR PROMISES WERE MADE TO YOU, YOU ARE NOT RELYING ON THEM.

YOU HAVE READ ALL OF THE FOREGOING AGREEMENT AND ACCEPT AND AGREE TO EACH AND ALL OF THE PROVISIONS, COVENANTS AND CONDITIONS OF THE FOREGOING AGREEMENT.

[Signatures on following page]

**FRANCHISEE**

| | |
|---|---|
| _____ | _____ |
| (***Signature***) | (***Signature***) |
| _____ | _____ |
| *(Typed or printed name and capacity of Signer)* | *(Typed or printed name and capacity of Signer)* |
| _____ | _____ |
| *(Residence Address)* | *(Residence Address)* |
| _____ | _____ |
| *(City State Zip)* | *(City State Zip)* |
| _____/_____ | _____/_____ |
| *(Res. Telephone No. Bus. Telephone No.)* | *(Res. Telephone No. Bus. Telephone No.)* |
| _____/_____ | _____/_____ |
| *(SSN) (Date of Birth)* | *(SSN) (Date of Birth)* |
| _____ | _____ |
| *(Driver's License No. and Issuing State)* | *(Driver's License No. and Issuing State)* |

**FRANCHISOR**

PIZZA GUYS FRANCHISES, INC.

By: _____
Shahpour M. Nejad, President

**EXHIBIT A**
**TO THE MULTI-UNIT DEVELOPMENT AGREEMENT**
**DEVELOPMENT AREA**

The following describes the Development Area within which Multi-Unit Operator may locate *Pizza Guys*® Franchised Businesses under this Agreement:

_____
_____
_____
_____
_____
_____

**EXHIBIT B**
**TO THE MULTI-UNIT DEVELOPMENT AGREEMENT**
**DEVELOPMENT SCHEDULE**

This Agreement authorizes and obliges Multi-Unit Operator to establish and operate _____ (___) *Pizza Guys*® Locations within the trade areas pursuant to a Franchise Agreement for each Franchised Business. The following is Multi-Unit Operator's Development Schedule:

| Minimum Cumulative Number of Franchised Businesses to be located and Operating Within the Development Area | By this Date |
|---|---|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

Total: _____

**EXHIBIT C**
**TO THE MULTI-UNIT DEVELOPMENT AGREEMENT**
**OWNERSHIP OF MULTI-UNIT OPERATOR**

The following is a list of all shareholders, partners, owners or other investors in Multi-Unit Operator, including all investors who own or hold a direct or indirect interest in Multi-Unit Operator, and a description of the nature of their interest:

| Name | Percentage of Ownership/ Nature of Interest |
| --- | --- |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

**EXHIBIT D**
**TO THE MULTI-UNIT DEVELOPMENT AGREEMENT**
**FIRST FRANCHISE AGREEMENT TO BE EXECUTED BY MULTI-UNIT OPERATOR**

[SEE FRANCHISE AGREEMENT AND ITS EXHIBITS
IN EXHIBIT 1 TO THE DISCLOSURE DOCUMENT]

**EXHIBIT D**
**TO THE MULTI-UNIT DEVELOPMENT AGREEMENT**
**CONFIDENTIALITY AND NON-COMPETITION AGREEMENT**

NAME: _____
MULTI-UNIT OPERATOR: _____
HOME ADDRESS: _____
_____
HOME TELEPHONE: _____
CLASSIFICATION: _____
(Owner, Shareholder, Officer, Director, Attorney, Employee, Etc.)

_____ ("Multi-Unit Operator") is an Multi-Unit Operator of Pizza Guys Franchises, Inc. ("Franchisor") pursuant to an Multi-Unit Development Agreement entered into by Multi-Unit Operator and Franchisor dated _____ (the "Multi-Unit Development Agreement"). I agree that, unless otherwise specified, all terms in this Agreement have those meanings ascribed to them in the Multi-Unit Development Agreement.

I agree that during the term of my employment by, ownership participation in, association with or service to Multi-Unit Operator, or at any time thereafter, I will not communicate, divulge or use for the benefit of any other person, persons, partnership, proprietorship, association, corporation or entity any confidential information, knowledge or know-how concerning the systems of operation, services, products, clients or practices of Multi-Unit Operator and/or Franchisor which may be communicated to me ("Confidential Information"), and I will not divert any business to competitors of Multi-Unit Operator and/or Franchisor.

Any and all information, knowledge, know-how, techniques and information which the entities mentioned above or their officers designate as confidential will be Confidential Information for the purposes of this Agreement, except information which I can demonstrate came to my attention before disclosure or which had become or becomes a part of the public domain through publication or communication by others (unless the publication or communication is in violation of a similar confidentiality agreement), but in no event through any act of mine.

I specifically understand that, without limitation, the following constitute Confidential Information of Franchisor: all products, services, equipment, technologies and procedures relating to all systems of operation, services, programs, products, procedures, policies, standards, techniques, specifications and criteria which now comprise or in the future may comprise a part of the Franchisor's system for establishing and operating *Pizza Guys*® businesses (the "System"); Franchisor's Confidential Operating Manual (as same may be amended from time to time, the "Manual"); supplements and/or amendments to the Manual; records pertaining to customers or billings; methods of advertising and promotion; customers; instructional materials; staff composition and organization systems; quality assurance programs; supervision systems; recommended services; recordkeeping systems and materials; bookkeeping systems and materials; business forms; product and service order forms; general operations materials; revenue reports; standards of interior and exterior design and decor; activity schedules; job descriptions; advertising, promotional and public relations materials/campaigns/guidelines/philosophy;

specifications, systems, standards, techniques, philosophies and materials, guidelines, policies and procedures concerning the System; additions to, deletions from, and modifications and variations of the components constituting the System or the systems and methods of operations which are now, or may in the future, be employed by Franchisor, including all standards and specifications relating thereto and the means and manner of offering and selling same; and, all other components, specifications, standards, requirements and duties imposed by Franchisor or its Affiliates.

I will at no time copy, duplicate, record or otherwise reproduce any of the Confidential Information or material containing it, in whole or in part, store them in a computer retrieval or data base, nor otherwise make the them available to any unauthorized person. Upon the expiration or other termination for any reason of my employment, association, service or ownership participation, I agree to return to Franchisor or Multi-Unit Operator, as the case may be, all Confidential Information or material containing it (in whole or in part) in my possession utilized during my employment, association, service or ownership participation.

I further agree that during the term of my employment/service/association/ownership participation, and under the circumstances set forth in the following paragraph, for a period of one year immediately following its expiration or termination for any reason, I will not, directly or indirectly, engage or participate in any other business which engages in any of the activities which the Multi-Unit Development Agreement contemplates will be engaged in by Multi-Unit Operator under the Franchise Agreements; or, which offers or sells any other service, product or component which now or in the future is part of Pizza Guys System, or any confusingly similar product or service. I agree that I am prohibited from engaging in any competitive business as a proprietor, partner, investor, shareholder, director, officer, employee, principal, agent, advisor, or consultant.

For a period of five years immediately following the expiration or termination of my employment/service/association/ownership participation, I am prohibited from engaging in any competitive business, if the other business is located within Multi-Unit Operator's Development Area, within ten (10) miles of the boundaries of Multi-Unit Operator's Development Area, or within ten (10) miles of (or within) any other Development Area or Business Territory (whether Company owned, franchised or otherwise established and operated).

It is the intention of these provisions to preclude not only direct competition but also all forms of indirect competition, such as consultation for competitive businesses, service as an independent contractor for competitive businesses, or any assistance or transmission of information of any kind which would be of any material assistance to a competitor. Nothing herein will prevent me from owning for investment purposes up to an aggregate of 5% of the capital stock of any competitive business, so long as the competitive business is a publicly held corporation whose stock is listed and traded on a national or regional stock exchange, or through the National Association of Securities Dealers Automated Quotation System (NASDAQ), and so long as I or Multi-Unit Operator do not control the company in question.

It is the intention of these provisions that any person or entity having any legal or beneficial interest in or traceable to, down or through me to be bound by the provisions of this covenant, including (without limitation) my spouse, brother, brother-in-law, sister, sister-in-law, parent, parent-in-law, child, son-in law or daughter-in-law; any direct or indirect beneficiary; any partner (general or

limited) or proprietor of mine; and, any other such related person or entity, regardless of how many levels or tiers there may be between any such described person or entity and me. I further agree that upon the expiration or termination of my term of employment/service/association, I will immediately refrain from any and all contacts with customers, for any purpose whatsoever.

I acknowledge that violation of the covenants not to compete contained in this Agreement would result in immediate and irreparable injury to Franchisor and Multi-Unit Operator for which no adequate remedy at law will be available. Accordingly, I hereby consent to the entry of an injunction procured by Franchisor or Multi-Unit Operator (or both) prohibiting any conduct by me in violation of the terms of those covenants not to compete and/or restrictions on the use of confidential information set forth in this agreement. I expressly agree that it may conclusively be presumed in any legal action that any violation of the terms of these covenants not to compete was accomplished by and through my unlawful utilization of Franchisor's Confidential Information.

Further, I expressly agree that any claims I may have against Franchisor will not constitute a defense to Franchisor's enforcement of the covenants not to compete set forth in this Agreement. I further agree to pay all costs and expenses (including reasonable attorneys' and experts' fees) incurred by Franchisor in connection with the enforcement of those covenants not to compete set forth in this Agreement.

If all or any portion of this covenant not to use confidential information and not to compete is held unreasonable, void, vague or illegal by any court or agency having valid jurisdiction in an unappealed final decision to which Multi-Unit Operator and/or Franchisor is a party, the court or agency will be empowered to revise and/or construe the covenant to fall within permissible legal limits, and should not invalidate the entire covenant. I expressly agree to be bound by any lesser covenant subsumed within the terms of this Agreement as if the resulting covenant were separately stated in and made a part of this Agreement.

I agree that this Agreement and all relations and disputes between myself on the one hand, and Multi-Unit Operator or Franchisor on the other hand, whether sounding in contract, tort, or otherwise, are to be exclusively construed in accordance with and/or governed by (as applicable) the law of the State of California without recourse to California (or any other) choice of law or conflicts of law principles. If, however, any provision of this Agreement would not be enforceable under the laws of California, and if the franchised Business is located outside of California and the provision would be enforceable under the laws of the state in which the franchised Business is located, then the provision (and only that provision) will be interpreted and construed under the laws of that state. Nothing in this Agreement is intended to invoke the application of any franchise, business opportunity, antitrust, "implied covenant", unfair competition, fiduciary or any other doctrine of law of the State of California or any other state, which would not otherwise apply.

I further agree that any litigation arising out of or related to this Agreement; any breach of this Agreement; and, all relations and any and all disputes between myself on the one hand, and Multi-Unit Operator or Franchisor on the other hand, whether sounding in contract, tort, or otherwise, will be instituted exclusively in a court of competent jurisdiction in Sacramento, California. I agree that any dispute as to the venue for this litigation will be submitted to and resolved exclusively by a court of competent jurisdiction situated in Sacramento, California.

I hereby waive and covenant never to assert or claim that said venue is for any reason improper, inconvenient, prejudicial or otherwise inappropriate (including, without limitation, any claim under the judicial doctrine of forum non conveniens).

_____
(Signature)

_____
(Print Name)

_____
(Date)

**EXHIBIT E**
**TO THE MULTI-UNIT DEVELOPMENT AGREEMENT**
**GUARANTEE OF THE MULTI-UNIT DEVELOPMENT AGREEMENT**

In consideration of the execution by Franchisor of the Multi-Unit Development Agreement (the "Multi-Unit Development Agreement") dated the _____ day of_____, _____, between Pizza Guys Franchises, Inc. ("Franchisor") and _____ ("Multi-Unit Operator") and for other good and valuable consideration, each of the undersigned, for themselves, their heirs, successors, and assigns, do jointly, individually and severally hereby absolutely and unconditionally guarantee the payment of all amounts and the performance of all of the covenants, terms, conditions, agreements and undertakings contained and set forth in said Multi-Unit Development Agreement and in any other agreement(s) by and between Multi-Unit Operator and Franchisor.

If more than one person has executed this Guarantee, the term "the undersigned", as used herein, shall refer to each such person, and the liability of each of the undersigned hereunder shall be joint and several and primary as sureties.

The undersigned, individually and jointly, hereby agree to be personally bound by each and every covenant, term, condition, agreement and undertaking contained and set forth in said Multi-Unit Development Agreement and any other agreement(s) by and between Multi-Unit Operator and Franchisor, and agree that this Guarantee shall be construed as though the undersigned and each of them executed agreement(s) containing the identical terms and conditions of the Multi-Unit Development Agreement and any other agreement(s) by and between Multi-Unit Operator and Franchisor.

The undersigned hereby agree, furthermore, that without the consent of or notice to any of the undersigned and without affecting any of the obligations of the undersigned hereunder: (a) any term, covenant or condition of the Multi-Unit Development Agreement may be amended, compromised, released or otherwise altered by Franchisor and Multi-Unit Operator, and the undersigned do guarantee and promise to perform all the obligations of Multi-Unit Operator under the Agreement as so amended, compromised, released or altered; (b) any guarantor of or party to the Multi-Unit Development Agreement may be released, substituted or added; (c) any right or remedy under the Agreement, this Guarantee or any other instrument or agreement between Franchisor and Multi-Unit Operator may be exercised, not exercised, impaired, modified, limited, destroyed or suspended; and, (d) Franchisor or any other person may deal in any manner with Multi-Unit Operator, any of the undersigned, any party to the Multi-Unit Development Agreement or any other person.

Should Multi-Unit Operator be in breach or default under the Multi-Unit Development Agreement or any other agreement(s) by and between Multi-Unit Operator and Franchisor, Franchisor may proceed directly against any or each of the undersigned without first proceeding against Multi-Unit Operator and without proceeding against or naming in such suit any other Multi-Unit Operator, signatory to the Multi-Unit Development Agreement or any others of the undersigned.

Notice to or demand upon Multi-Unit Operator or any of the undersigned shall be deemed notice to or demand upon Multi-Unit Operator and all of the undersigned, and no notice or demand need be made to or upon any or all of the undersigned. The cessation of or release from liability of Multi-Unit Operator or any of the undersigned shall not relieve any other Guarantors from liability hereunder, under the Multi-Unit Development Agreement, or under any other agreement(s) between Franchisor and Multi-Unit Operator, except to the extent that the breach or default has been remedied or moneys owed have been paid.

Any waiver, extension of time or other indulgence granted by Franchisor or its agents, successors or assigns, with respect to the Multi-Unit Development Agreement or any other agreement(s) by and between Multi-Unit Operator and Franchisor, shall in no way modify or amend this Guarantee, which shall be continuing, absolute, unconditional and irrevocable.

It is understood and agreed by the undersigned that the provisions, covenants and conditions of this Guarantee shall inure to the benefit of the Franchisor, its successors and assigns. This Guarantee may be assigned by Franchisor voluntarily or by operation of law without reducing or modifying the liability of the undersigned hereunder.

This Guarantee is to be exclusively construed in accordance with and/or governed by the law of the State of California without recourse to California (or any other) choice of law or conflicts of law principles. If, however, any provision of this Guarantee would not be enforceable under the laws of California, and if the business franchised under the Multi-Unit Development Agreement is located outside of California and the provision would be enforceable under the laws of the state in which the franchised business is located, then the provision (and only that provision) will be interpreted and construed under the laws of that state. Nothing in this Guarantee is intended to invoke the application of any franchise, business opportunity, antitrust, "implied covenant", unfair competition, fiduciary or any other doctrine of law of the State of California or any other state, which would not otherwise apply.

Any litigation arising out of or related to this Guarantee will be instituted exclusively in a court of competent jurisdiction in Sacramento, California. The undersigned agree that any dispute as to the venue for this litigation will be submitted to and resolved exclusively by a court of competent jurisdiction situated in Sacramento, California. The undersigned hereby waive and covenant never to assert or claim that said venue is for any reason improper, inconvenient, prejudicial or otherwise inappropriate (including, without limitation, any claim under the judicial doctrine of forum non conveniens).

Should any one or more provisions of this Guarantee be determined to be illegal or unenforceable, all other provisions shall nevertheless be effective.

[Signatures on following page]

IN WITNESS WHEREOF, each of the undersigned has executed this Guarantee effective as of the date of the Multi-Unit Development Agreement.

_____
(Signature)

_____
(Print Name)

_____
(Date)

# EXHIBIT 3

# FINANCIAL STATEMENTS

# PIZZA GUYS FRANCHISES, INC.

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## REPORT ON EXAMINATION

## OF

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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YEARS ENDED DECEMBER 31, 2019 AND 2018

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# INDEPENDENT AUDITOR'S REPORT

March 30, 2020

To the Board of Directors and Stockholders
of Pizza Guys Franchises, Inc.

We have audited the accompanying financial statements of Pizza Guys Franchises, Inc. (a California corporation), which comprise the balance sheets as of December 31, 2019 and 2018, 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 the 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 Guys Franchises, Inc. as of December 31, 2019 and 2018, 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.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Schedule I on page 14 is presented for purposes of additional analysis and is 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 audit 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.

Kawana & Gong, LLP

PIZZA GUYS FRANCHISES, INC.

BALANCE SHEETS

ASSETS

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ 174,999 | $ 534,619 |
| Accounts receivable - trade | 65,449 | 110,128 |
| Accounts receivable - other | 105,000 | |
| Accounts receivable - affiliated company | 691 | |
| Prepaid expenses | 5,800 | 5,477 |
| Estimated income taxes | 4,013 | |
| TOTAL CURRENT ASSETS | 355,952 | 650,224 |
| PROPERTY AND EQUIPMENT - at cost: | | |
| Machinery and equipment | 136,588 | 136,588 |
| Furniture and fixtures | 56,636 | 56,636 |
| Vehicles | 433,600 | 395,045 |
| Computer equipment | 37,282 | 37,282 |
| Leasehold improvements | 29,650 | 29,650 |
| | 693,756 | 655,201 |
| Less accumulated depreciation | 586,911 | 526,303 |
| | 106,845 | 128,898 |
| OTHER ASSETS: | | |
| Deferred income tax asset | 1,350 | 2,850 |
| | 1,350 | 2,850 |
| | $ 464,147 | $ 781,972 |

See accompanying notes to financial statements.

LIABILITIES AND STOCKHOLDER'S EQUITY

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable: | | |
| Trade | $ 74,010 | $ 61,006 |
| Credit cards | 43,718 | 56,102 |
| Payroll taxes payable | 13,371 | 7,700 |
| Accrued wages and salaries | 32,241 | 26,776 |
| Accrued expenses | 2,069 | |
| Income taxes payable | | 2,249 |
| Current maturities on long-term debt | 6,995 | 11,417 |
| TOTAL CURRENT LIABILITIES | 172,404 | 165,250 |
| LONG-TERM DEBT, net of current portion | | 6,995 |
| STOCKHOLDER'S EQUITY: | | |
| Common stock, no par value; authorized 1,200,000 shares; issued and outstanding 1,200,000 shares | 27,813 | 27,813 |
| Retained earnings | 263,930 | 581,914 |
| | 291,743 | 609,727 |
| | $ 464,147 | $ 781,972 |

PIZZA GUYS FRANCHISES, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| SALES: | | |
| Franchise royalties | $ 2,244,903 | $ 2,257,224 |
| Franchise fees | 125,500 | 60,000 |
| Advertising income | 233,381 | 245,497 |
| Rebate income | 134,409 | 162,625 |
| Returns and allowances | (53,240) | (31,294) |
| | 2,684,953 | 2,694,052 |
| EXPENSES: | | |
| General and administrative expenses | 2,752,750 | 2,477,472 |
| Depreciation | 60,607 | 66,648 |
| | 2,813,357 | 2,544,120 |
| INCOME (LOSS) FROM OPERATIONS | (128,404) | 149,932 |
| OTHER INCOME: | | |
| Lease income | 12,000 | 12,000 |
| Other income | 805 | |
| | 12,805 | 12,000 |
| INCOME (LOSS) BEFORE INCOME TAXES | (115,599) | 161,932 |
| INCOME TAXES: | | |
| Current | 885 | 2,249 |
| Deferred | 1,500 | (450) |
| | 2,385 | 1,799 |
| NET INCOME (LOSS) | (117,984) | 160,133 |
| RETAINED EARNINGS, BEGINNING OF YEAR | 581,914 | 621,781 |
| SHAREHOLDER'S WITHDRAWALS | 200,000 | 200,000 |
| RETAINED EARNINGS, END OF YEAR | $ 263,930 | $ 581,914 |

See accompanying notes to financial statements.

PIZZA GUYS FRANCHISES, INC.

STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | $ (117,984) | $ 160,133 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 60,607 | 66,648 |
| Deferred income taxes benefit | 1,500 | (450) |
| (Increase) decrease in: | | |
| Accounts receivable | (61,012) | (20,070) |
| Prepaid expenses | (323) | 1,519 |
| Estimated income taxes | (4,013) | |
| Increase (decrease) in: | | |
| Accounts payable | 620 | 23,279 |
| Accrued wages and salaries | 5,465 | 10,518 |
| Payroll taxes payable | 5,671 | 775 |
| Accrued expenses | 2,069 | (30,077) |
| Income taxes payable | (2,249) | 2,150 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (109,649) | 214,425 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (38,554) | (3,391) |
| NET CASH USED BY INVESTING ACTIVITIES | (38,554) | (3,391) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments - long-term debt | (11,417) | (15,667) |
| Shareholder's withdrawals | (200,000) | (200,000) |
| NET CASH USED BY FINANCING ACTIVITIES | (211,417) | (215,667) |
| NET DECREASE IN CASH | (359,620) | (4,633) |
| CASH, BEGINNING OF YEAR | 534,619 | 539,252 |
| CASH, END OF YEAR | $ 174,999 | $ 534,619 |

See accompanying notes to financial statements.

PIZZA GUYS FRANCHISES, INC.

STATEMENTS OF CASH FLOWS

(Continued)

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for: | | |
| Income taxes | $ | $ 8,909 |

See accompanying notes to financial statements.

PIZZA GUYS FRANCHISES, INC.

NOTES TO FINANCIAL STATEMENTS

## ORGANIZATION

Pizza Guys Franchises, Inc. (the "Company"), a California S corporation, was formed on April 7, 1995 to offer franchises for the operation of pizza takeout and delivery stores. The Company operates under the accrual method of accounting. The Company has 1,200,000 shares of no stated value common stock authorized, issued, and outstanding as of December 31, 2019 and December 31, 2018.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Pizza Guys Franchises, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are the representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements. Management has evaluated subsequent events through March 30, 2020, the date the financial statements were available to be issued.

### Cash Equivalents

For purposes of the statement of cash flows, the Company considers all unrestricted investment instruments purchased with original maturities of three months or less to be cash equivalents. At December 31, 2019 and December 31, 2018, there were no cash equivalents.

### Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed as incurred while renewals and betterments are capitalized. Depreciation is computed on the straight-line and declining-balance method over estimated useful lives.

### Accounts receivable

Bad debts are charged to operations in the year in which the account is determined uncollectible. Trade receivables are due no more than 30 days after issuance of the invoice. Receivables past due more than 60 days are considered delinquent. All accounts receivable are considered by management to be fully collectible.

### Compensated Absences

Compensated absences for sick pay and vacation time have not been accrued since they cannot be reasonably estimated. The Company's policy is to recognize these costs when actually paid.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2019 and December 31, 2018 were $1,159,749 and $1,125,536, respectively.

Presentation of Sales Tax

The State of California, and various counties, localities and districts impose a sales tax on all of the Company's sales to nonexempt customers. The Company collects the sales tax from customers and remits the entire amount to the State. The Company's accounting policy is to not include the tax collected and remitted to the State in revenues.

Income Taxes

The Company has elected to be taxed as an S corporation under the provisions of the Internal Revenue Code. Accordingly, the financial statements do not include provision for federal income taxes because the Company does not incur federal income taxes. Instead, the stockholders are taxed on their proportionate share of the Company's taxable income. The state of California does impose a corporate level franchise tax on S corporations. A provision for this tax has been recorded.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciation, prepaid expenses, and other current liabilities for financial reporting purposes over tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

The Company classifies interest related to the underpayment of income taxes and any related penalties as operating expenses in the Statement of Income. There were no penalties related to income taxes for the years ended December 31, 2019 and December 31, 2018.

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. The Company's U.S. federal income tax returns from 2017 to the current year remain open to examination, while the California income tax returns from 2016 to the current year remain open to examination.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of risk consist principally of accounts receivable. Concentrations of credit risk with respect to accounts receivable contracts are due to the majority of customers being located within California. The Company performs ongoing credit evaluations of its customers and, generally, requires no collateral.

The Company maintains all of its cash accounts in one commercial bank located in Rancho Cordova, California. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2019 and December 31, 2018 the amounts in excess of the insured limits were $ -0- and $300,612, respectively.

DEPRECIATION EXPENSE

Depreciation expense was computed as follows:

| | Estimated Useful Years | Years Ended December 31, 2019 | Years Ended December 31, 2018 |
|---|---|---|---|
| Machinery and equipment | 5 | $ 2,875 | $ 6,682 |
| Furniture and fixtures | 7 | 201 | 201 |
| Vehicles | 5 | 57,531 | 59,765 |
| | | $ 60,607 | $ 66,648 |

PIZZA GUYS FRANCHISES, INC.

NOTES TO FINANCIAL STATEMENTS

LONG-TERM DEBT

| | Years Ended December 31, 2019 | Years Ended December 31, 2018 |
|---|---|---|
| Note payable to Mercedes-Benz Financial Services, 0% interest rate, due in monthly installments of principal of $696.50, vehicle pledged as collateral. The loan matures October 27, 2020. | $ 6,995 | $ 15,353 |
| Note payable to Toyota Financial Services, 0% interest rate, due in monthly installments of principal of $611.67, vehicle pledged as collateral. The loan matured May 16, 2019. | | 3,059 |
| | 6,995 | 18,412 |
| Less current portion | 6,995 | 11,417 |
| | $ -0- | $ 6,995 |

Maturities of long-term debt for each of the next three years are as follows:

| Year Ending | Aggregate Obligations |
|---|---|
| December 31, 2020 | $ 6,995 |

COMMITMENTS

Operating Lease

Pizza Guys Franchises, Inc. leases a truck and trailer to a franchisee under a 36-month operating lease, commencing on October 1, 2018, with the option to extend the lease or to purchase the truck and trailer. The current lease provides for monthly receipts of $1,000. Lease income received for the years ended December 31, 2019 and December 31, 2018 was $12,000 and $12,000, respectively.

COMMITMENTS (continued)

Operating Lease (continued)

Future minimum lease income under the Company's operating lease is as follows:

| Year Ending | Aggregate Obligations |
|---|---|
| December 31, 2020 | $ 9,000 |

Contract commitments

The Company has an advertisement contract with Sacramento Kings Limited Partnership, L.P. (a California limited partnership) on a three-year term, commencing on March 1, 2019. The contract was not renewed in 2019. Advertisement expense paid for this contract was $91,473 and $202,503 for the years ended December 31, 2019 and December 31, 2018, respectively.

The Company also has an advertisement contract with The Sacramento Bee, a newspaper company in California, commencing on June 8, 2016. The contract was renewed on March 1, 2019 for another one-year term. Advertisement expense paid for this contract was $324,238 and $336,272 for the years ended December 31, 2019 and December 31, 2018, respectively.

INCOME TAXES

The components of deferred taxes included in the balance sheets as of December 31, 2019 and December 31, 2018 are as follows:

| | Years Ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Deferred tax assets: | | |
| Depreciation—state | $ 1,350 | $ 2,850 |

## RELATED PARTY TRANSACTIONS

### Revenues and purchases

The Company has routine business transactions with an affiliated company that owns seven franchises. The Company has conducted the following routine business transactions with the affiliated company:

| | Years Ended December 31, 2019 | Years Ended December 31, 2018 |
|---|---|---|
| Advertising income | $ 38,919 | $ 42,560 |
| Purchases from affiliated company | 3,425 | 62,875 |
| Due from affiliated company | 691 | |

### Office Lease

The Company leases its office in Rancho Cordova, California from a related company owned by one of the shareholders on a five-year operating lease, commencing on April 1, 2014. The Company has the option to renew the lease three times, each for an additional five years. The Company exercised the option to renew the lease for another five years on April 1, 2019. The terms remained the same. The lease calls for monthly payments of $15,000. For the years ended December 31, 2019 and December 31, 2018, rent of $180,000 and $180,000, respectively, was paid and expensed.

Future minimum lease income under the Company's operating lease is as follows:

| Year Ending | Aggregate Obligations |
|---|---|
| December 31, 2020 | $ 180,000 |
| December 31, 2021 | 180,000 |
| December 31, 2022 | 180,000 |
| December 31, 2023 | 180,000 |
| December 31, 2024 | 45,000 |
| | $ 765,000 |

PIZZA GUYS FRANCHISES, INC.

NOTES TO FINANCIAL STATEMENTS

FRANCHISING

In general, the Company's franchise agreements provide for the payment of a franchise fee for each opened franchised location. Franchisees pay royalty fees of 5% of gross sales per week. The Company collects advertising fees for regional media, which are based on a minimum of 7% of net sales or $5,500, whichever is less. Subject to approval and payment of their renewal fee, a franchisee may generally renew its agreement upon expiration. The Company recognizes renewal fees as income when a renewal agreement becomes effective.

Initial franchise fees of $20,000 are generally recognized when substantially all services or conditions relating to the franchise sale have been performed or satisfied by the Company. Services provided by the Company include assistance in site selection, personnel training, and implementation of an accounting and quality control system.

Franchise revenue consists of the following:

| | Years Ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Franchise royalties | $ 2,244,903 | $ 2,257,224 |
| Franchise fees | 125,500 | 60,000 |
| Advertising income | 233,381 | 245,497 |
| Rebate income | 134,409 | 162,625 |
| Returns and allowances | (53,240) | (31,294) |
| Total franchise revenue | $ 2,684,953 | $ 2,694,052 |

As territory is assigned to each franchisee sold, the Company may reach the point where existing markets become saturated and initial franchising revenue declines. Unless new markets are entered into, franchise revenues after market saturation will come primarily from continuing and renewal fees for existing franchises. In 2019, three new franchises were opened and a total of 69 franchises were in operation.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments, none of which are held for trading purposes, include cash, accounts receivable, prepaid expenses, accounts payable and other current liabilities. The Company estimates that the fair value of all financial instruments at December 31, 2019 does not differ materially from the aggregate carrying value of the financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

SUPPLEMENTARY INFORMATION

PIZZA GUYS FRANCHISES, INC.

SCHEDULE I

GENERAL AND ADMINISTRATIVE EXPENSES

| | Years Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| GENERAL AND ADMINISTRATIVE EXPENSES: | | |
| Advertising and promotion | $ 1,159,749 | $ 1,125,536 |
| Awards to franchisee | 18,013 | 28,371 |
| Automobile expense | 36,594 | 28,469 |
| Bank service charges | 6,320 | 6,703 |
| Consulting | | 13,731 |
| Charitable contributions | 18,986 | 24,751 |
| Dues and subscriptions | 1,145 | 500 |
| Insurance expense | 81,093 | 80,203 |
| Legal and professional fees | 34,336 | 25,390 |
| Meals and entertainment | 13,512 | 10,423 |
| Meeting and seminars | 2,573 | 6,590 |
| Miscellaneous | 340 | 229 |
| Office supplies | 215,510 | 154,457 |
| Officers salaries | 96,000 | 24,000 |
| Outside services | | 14,310 |
| Payroll taxes | 68,567 | 55,505 |
| Pest Control | 1,020 | 985 |
| Postage and freight | 11,887 | 6,862 |
| Rent expense | 180,000 | 180,000 |
| Repairs and maintenance | 719 | 6,516 |
| Security | 1,188 | 1,568 |
| Software expense | 2,425 | |
| Taxes and licenses | 2,613 | 7,891 |
| Telephone expense | 18,643 | 20,666 |
| Operating supplies | 19,846 | 1,110 |
| Travel expense | 32,746 | 23,552 |
| Utilities | 227 | 874 |
| Uniform and laundry | 11,755 | 10,950 |
| Wages and salaries | 716,943 | 617,330 |
| | 2,752,750 | 2,477,472 |
| DEPRECIATION AND AMORTIZATION | 60,607 | 66,648 |
| | $ 2,813,357 | $ 2,544,120 |

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Fresno, California 93720-3331
---
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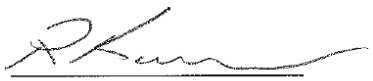
**CONSENT BY AUDITOR**

As independent public accountants, we consent to the use of our report dated March 30, 2020, in the Franchise Disclosure Document of Pizza Guys Franchises, Inc. with the issuance date of March 30, 2020 for distribution to prospective franchisees and for filing with states requiring registration of franchise offers, sales, or both.



Certified Public Accountants

Fresno, CA
March 30, 2020

# PIZZA GUYS FRANCHISES, INC.

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## REPORT ON EXAMINATION

## OF

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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**YEARS ENDED DECEMBER 31, 2018 AND 2017**

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# INDEPENDENT AUDITOR'S REPORT

June 14, 2019

To the Board of Directors and Stockholders
of Pizza Guys Franchises, Inc.

We have audited the accompanying financial statements of Pizza Guys Franchises, Inc. (a California corporation), which comprise the balance sheets as of December 31, 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 the 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 Guys Franchises, Inc. as of December 31, 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.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Schedule I on page 15 is presented for purposes of additional analysis and is 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 audit 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.

Kawana & Gong, LLP

PIZZA GUYS FRANCHISES, INC.

BALANCE SHEETS

ASSETS

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ 534,619 | $ 539,252 |
| Accounts receivable - trade | 110,128 | 90,058 |
| Prepaid expenses | 5,477 | 6,996 |
| TOTAL CURRENT ASSETS | 650,224 | 636,306 |
| PROPERTY AND EQUIPMENT - at cost: | | |
| Machinery and equipment | 136,588 | 136,588 |
| Furniture and fixtures | 56,636 | 56,636 |
| Vehicles | 395,045 | 395,045 |
| Computer equipment | 37,282 | 33,891 |
| Leasehold improvements | 29,650 | 29,650 |
| | 655,201 | 651,810 |
| Less accumulated depreciation | 526,303 | 459,655 |
| | 128,898 | 192,155 |
| OTHER ASSETS: | | |
| Deferred income tax asset | 2,850 | 2,400 |
| | 2,850 | 2,400 |
| | $ 781,972 | $ 830,861 |

See accompanying notes to financial statements.

LIABILITIES AND STOCKHOLDER'S EQUITY

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable: | | |
| Trade | $ 61,006 | $ 45,658 |
| Affiliated company | | 675 |
| Credit cards | 56,102 | 47,496 |
| Payroll taxes payable | 7,700 | 6,925 |
| Accrued wages and salaries | 26,776 | 16,258 |
| Accrued expenses | | 30,077 |
| Income taxes payable | 2,249 | 99 |
| Current maturities on long-term debt | 11,417 | 15,698 |
| TOTAL CURRENT LIABILITIES | 165,250 | 162,886 |
| LONG-TERM DEBT, net of current portion | 6,995 | 18,381 |
| STOCKHOLDER'S EQUITY: | | |
| Common stock, no par value; authorized 1,200,000 shares; issued and outstanding 1,200,000 shares | 27,813 | 27,813 |
| Retained earnings | 581,914 | 621,781 |
| | 609,727 | 649,594 |
| | $ 781,972 | $ 830,861 |

PIZZA GUYS FRANCHISES, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

| | Years Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| SALES: | | |
| Franchise royalties | $ 2,257,224 | $ 2,009,362 |
| Franchise fees | 60,000 | 85,000 |
| Advertising income | 245,497 | 334,306 |
| Rebate income | 162,625 | 157,977 |
| Returns and allowances | (31,294) | (5,346) |
| | 2,694,052 | 2,581,299 |
| EXPENSES: | | |
| General and administrative expenses | 2,477,472 | 2,048,185 |
| Depreciation | 66,648 | 73,833 |
| | 2,544,120 | 2,122,018 |
| INCOME FROM OPERATIONS | 149,932 | 459,281 |
| OTHER INCOME (EXPENSES): | | |
| Interest expense | | (134) |
| Lease income | 12,000 | 12,000 |
| Gain on sale of asset | | 16,917 |
| Other income | | 3 |
| | 12,000 | 28,786 |
| INCOME BEFORE INCOME TAXES | 161,932 | 488,067 |
| INCOME TAXES: | | |
| Current | 2,249 | 7,896 |
| Deferred | (450) | (350) |
| | 1,799 | 7,546 |
| NET INCOME | 160,133 | 480,521 |

See accompanying notes to financial statements.

PIZZA GUYS FRANCHISES, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

(Continued)

| | Years Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| RETAINED EARNINGS, BEGINNING OF YEAR | $ 621,781 | $ 215,462 |
| SHAREHOLDER'S WITHDRAWALS | 200,000 | 74,202 |
| RETAINED EARNINGS, END OF YEAR | $ 581,914 | $ 621,781 |

See accompanying notes to financial statements.

PIZZA GUYS FRANCHISES, INC.

STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 160,133 | $ 480,521 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 66,648 | 73,833 |
| Deferred income taxes benefit | (450) | (350) |
| Gain on sale of assets | | (16,917) |
| (Increase) decrease in: | | |
| Accounts receivable | (20,070) | (12,992) |
| Prepaid expenses | 1,519 | 458 |
| Increase (decrease) in: | | |
| Accounts payable | 23,279 | (211,544) |
| Accrued wages and salaries | 10,518 | 1,960 |
| Payroll taxes payable | 775 | (1,069) |
| Accrued expenses | (30,077) | 6,394 |
| Income taxes payable | 2,150 | 99 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 214,425 | 320,393 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (3,391) | (54,272) |
| Proceeds from sale of assets | | 33,500 |
| NET CASH USED BY INVESTING ACTIVITIES | (3,391) | (20,772) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments - long-term debt | (15,667) | (25,509) |
| Shareholder's withdrawals | (200,000) | (74,202) |
| NET CASH USED BY FINANCING ACTIVITIES | (215,667) | (99,711) |
| NET INCREASE (DECREASE) IN CASH | (4,633) | 199,910 |
| CASH, BEGINNING OF YEAR | 539,252 | 339,342 |
| CASH, END OF YEAR | $ 534,619 | $ 539,252 |

See accompanying notes to financial statements.

PIZZA GUYS FRANCHISES, INC.

STATEMENTS OF CASH FLOWS

(Continued)

| | Years Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for: | | |
| Interest expense | $ | $ 430 |
| Income taxes | $ 8,909 | $ 6,177 |
| SUPPLEMENTARY DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Acquisition of equipment: | | |
| Cost of property and equipment | $ | $ (138,644) |
| Property and equipment loans | | 55,452 |
| Cash payment for property and equipment | $ | $ (83,192) |

See accompanying notes to financial statements.

PIZZA GUYS FRANCHISES, INC.

NOTES TO FINANCIAL STATEMENTS

## ORGANIZATION

Pizza Guys Franchises, Inc. (the "Company"), a California S corporation, was formed on April 7, 1995 to offer franchises for the operation of pizza takeout and delivery stores. The Company operates under the accrual method of accounting. The Company has 1,200,000 shares of no stated value common stock authorized, issued, and outstanding as of December 31, 2018 and December 31, 2017.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Pizza Guys Franchises, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are the representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements. Management has evaluated subsequent events through June 14, 2019, the date the financial statements were available to be issued.

### Cash Equivalents

For purposes of the statement of cash flows, the Company considers all unrestricted investment instruments purchased with original maturities of three months or less to be cash equivalents. At December 31, 2018 and December 31, 2017, there were no cash equivalents.

### Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed as incurred while renewals and betterments are capitalized. Depreciation is computed on the straight-line and declining-balance method over estimated useful lives.

### Accounts receivable

Bad debts are charged to operations in the year in which the account is determined uncollectible. Trade receivables are due no more than 30 days after issuance of the invoice. Receivables past due more than 60 days are considered delinquent. All accounts receivable are considered by management to be fully collectible.

### Compensated Absences

Compensated absences for sick pay and vacation time have not been accrued since they cannot be reasonably estimated. The Company's policy is to recognize these costs when actually paid.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2018 and December 31, 2017 were $1,125,536 and $952,878, respectively.

Presentation of Sales Tax

The State of California, and various counties, localities and districts impose a sales tax on all of the Company's sales to nonexempt customers. The Company collects the sales tax from customers and remits the entire amount to the State. The Company's accounting policy is to not include the tax collected and remitted to the State in revenues.

Income Taxes

The Company has elected to be taxed as an S corporation under the provisions of the Internal Revenue Code. Accordingly, the financial statements do not include provision for federal income taxes because the Company does not incur federal income taxes. Instead, the stockholders are taxed on their proportionate share of the Company's taxable income. The state of California does impose a corporate level franchise tax on S corporations. A provision for this tax has been recorded.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciation, prepaid expenses, and other current liabilities for financial reporting purposes over tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income Taxes (continued)

The Company classifies interest related to the underpayment of income taxes and any related penalties as operating expenses in the Statement of Income. There were no penalties related to income taxes for the years ended December 31, 2018 and December 31, 2017.

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. The Company's U.S. federal income tax returns from 2016 to the current year remain open to examination, while the California income tax returns from 2015 to the current year remain open to examination.

### Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of risk consist principally of accounts receivable. Concentrations of credit risk with respect to accounts receivable contracts are due to the majority of customers being located within California. The Company performs ongoing credit evaluations of its customers and, generally, requires no collateral.

The Company maintains all of its cash accounts in one commercial bank located in Rancho Cordova, California. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2018 and December 31, 2017 the amounts in excess of the insured limits were $300,612 and $293,835, respectively.

## DEPRECIATION EXPENSE

Depreciation expense was computed as follows:

| | Estimated Useful Years | Years Ended December 31, 2018 | Years Ended December 31, 2017 |
|---|---|---|---|
| Machinery and equipment | 5 | $ 6,682 | $ 6,414 |
| Furniture and fixtures | 7 | 201 | 201 |
| Vehicles | 5 | 59,765 | 67,218 |
| | | $ 66,648 | $ 73,833 |

PIZZA GUYS FRANCHISES, INC.

NOTES TO FINANCIAL STATEMENTS

LONG-TERM DEBT

| | Years Ended December 31, 2018 | Years Ended December 31, 2017 |
|---|---|---|
| Note payable to Mercedes-Benz Financial Services, 0% interest rate, due in monthly installments of principal of $696.50, vehicle pledged as collateral. The loan matures October 27, 2020. | $ 15,353 | $ 23,681 |
| Note payable to Toyota Financial Services, 0% interest rate, due in monthly installments of principal of $611.67, vehicle pledged as collateral. The loan matures May 16, 2019. | 3,059 | 10,398 |
| | 18,412 | 34,079 |
| Less current portion | 11,417 | 15,698 |
| | $ 6,995 | $ 18,381 |

Maturities of long-term debt for each of the next three years are as follows:

| Year Ending | Aggregate Obligations |
|---|---|
| December 31, 2019 | $ 11,417 |
| December 31, 2020 | 6,995 |
| | $ 18,412 |

COMMITMENTS

Operating Lease

Pizza Guys Franchises, Inc. leases a truck and trailer to a franchisee under a 36-month operating lease, commencing on October 1, 2018, with the option to extend the lease or to purchase the truck and trailer. The current lease provides for monthly receipts of $1,000. Lease income received for the years ended December 31, 2018 and December 31, 2017 was $12,000 and $12,000, respectively.

COMMITMENTS (continued)

Operating Lease (continued)

Future minimum lease income under the Company's operating lease is as follows:

| Year Ending | Aggregate Obligations |
|---|---|
| December 31, 2019 | $ 12,000 |
| December 31, 2020 | 9,000 |
| | $ 21,000 |

Contract commitments

The Company has an advertisement contract with Sacramento Kings Limited Partnership, L.P. (a California limited partnership) on a three-year term, commencing on July 7, 2016. Advertisement expense paid for this contract was $202,503 and $183,063 for the years ended December 31, 2018 and December 31, 2017, respectively.

The Company also has an advertisement contract with The Sacramento Bee, a newspaper company in California, commencing on June 8, 2016. The contract expired on December 31, 2018 and was renewed for another two-year term. Advertisement expense paid for this contract was $336,272 and $120,198 for the years ended December 31, 2018 and December 31, 2017, respectively.

INCOME TAXES

The components of deferred taxes included in the balance sheets as of December 31, 2018 and December 31, 2017 are as follows:

| | Years Ended | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Deferred tax assets: | | |
| Depreciation—state | $ 2,850 | $ 2,400 |

## RELATED PARTY TRANSACTIONS

### Revenues and purchases

The Company has routine business transactions with a franchisee that is considered an affiliated company. The Company has conducted the following routine business transactions with the affiliated company:

| | Years Ended | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Advertising income | $ 42,560 | $ 52,411 |
| Purchases from affiliated company | 62,875 | 2,768 |
| Due to affiliated company | | 675 |

### Office Lease

The Company leases its office in Rancho Cordova, California from a related company owned by one of the shareholders on a five-year operating lease, commencing on April 1, 2014. The Company has the option to renew the lease for three times an additional five years. The lease calls for monthly payments of $15,000. For the years ended December 31, 2018 and December 31, 2017, rent of $180,000 and $180,000, respectively, was paid and expensed.

Future minimum lease income under the Company's operating lease is as follows:

| Year Ending | Aggregate Obligations |
|---|---|
| December 31, 2019 | $ 45,000 |

PIZZA GUYS FRANCHISES, INC.

NOTES TO FINANCIAL STATEMENTS

## FRANCHISING

In general, the Company's franchise agreements provide for the payment of a franchise fee for each opened franchised location. Franchisees pay royalty fees of 5% of gross sales per week. The Company collects advertising fees for regional media, which are based on a minimum of 7% of net sales or $5,500, whichever is less. Subject to approval and payment of their renewal fee, a franchisee may generally renew its agreement upon expiration. The Company recognizes renewal fees as income when a renewal agreement becomes effective.

Initial franchise fees of $20,000 are generally recognized when substantially all services or conditions relating to the franchise sale have been performed or satisfied by the Company. Services provided by the Company include assistance in site selection, personnel training, and implementation of an accounting and quality control system.

Franchise revenue consists of the following:

| | Years Ended | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Franchise royalties | $ 2,257,224 | $ 2,009,362 |
| Franchise fees | 60,000 | 85,000 |
| Advertising income | 245,497 | 334,306 |
| Rebate income | 162,625 | 157,977 |
| Returns and allowances | (31,294) | (5,346) |
| Total franchise revenue | $ 2,694,052 | $ 2,581,299 |

As territory is assigned to each franchisee sold, the Company may reach the point where existing markets become saturated and initial franchising revenue declines. Unless new markets are entered into, franchise revenues after market saturation will come primarily from continuing and renewal fees for existing franchises. In 2018, one new franchise was opened and a total of 66 franchises were in operation.

PIZZA GUYS FRANCHISES, INC.

NOTES TO FINANCIAL STATEMENTS

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments, none of which are held for trading purposes, include cash, accounts receivable, prepaid expenses, accounts payable and other current liabilities. The Company estimates that the fair value of all financial instruments at December 31, 2018 does not differ materially from the aggregate carrying value of the financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

SUPPLEMENTARY INFORMATION

PIZZA GUYS FRANCHISES, INC.

SCHEDULE I

GENERAL AND ADMINISTRATIVE EXPENSES

| | Years Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| GENERAL AND ADMINISTRATIVE EXPENSES: | | |
| Advertising and promotion | $ 1,125,536 | $ 952,878 |
| Awards to franchisee | 28,371 | 6,500 |
| Automobile expense | 28,469 | 27,766 |
| Bank service charges | 6,703 | 8,040 |
| Consulting | 13,731 | 19,723 |
| Charitable contributions | 24,751 | 20,626 |
| Dues and subscriptions | 500 | 995 |
| Insurance expense | 80,203 | 76,343 |
| Legal and professional fees | 25,390 | 24,245 |
| Meals and entertainment | 10,423 | 18,298 |
| Meeting and seminars | 6,590 | 2,239 |
| Miscellaneous | 229 | 2,393 |
| Office supplies | 154,457 | 81,157 |
| Officers salaries | 24,000 | 24,000 |
| Wages and salaries | 617,330 | 420,257 |
| Payroll taxes | 55,505 | 43,342 |
| Pest Control | 985 | 960 |
| Postage and freight | 6,862 | 9,494 |
| Rent expense | 180,000 | 180,000 |
| Repairs and maintenance | 6,516 | 4,440 |
| Security | 1,568 | 1,336 |
| Taxes and licenses | 7,891 | 3,172 |
| Telephone expense | 20,666 | 33,317 |
| Operating supplies | 1,110 | 4,955 |
| Travel expense | 23,552 | 19,346 |
| Utilities | 874 | 309 |
| Uniform and laundry | 10,950 | 11,525 |
| Outside services | 14,310 | 7,143 |
| Computer and internet | | 43,386 |
| | 2,477,472 | 2,048,185 |
| INTEREST | | 134 |
| DEPRECIATION AND AMORTIZATION | 66,648 | 73,833 |
| | $ 2,544,120 | $ 2,122,152 |

Kawana & Gong, LLP
Certified Public Accountants
1044 E. Spruce Ave., Suite 105
Fresno, California 93720-3331

Tel. (559) 226-6664
Fax (559) 226-7174
www.kgllpcpas.com

**CONSENT BY AUDITOR**

As independent public accountants, we consent to the use of our report dated June 14, 2019, in the Franchise Disclosure Document of Pizza Guys Franchises, Inc. with the issuance date of June 14, 2019 for distribution to prospective franchisees and for filing with states requiring registration of franchise offers, sales, or both.

Kawana & Gong, LLP

Certified Public Accountants

Fresno, CA
June 14, 2019

# EXHIBIT 4

## STATE ADMINISTRATORS AND AGENTS FOR SERVICE OF PROCESS

| | |
|---|---|
| **California**<br><br>State Administrator and Agents for Service of Process:<br><br>Commissioner of Business Oversight of the Department of Business Oversight<br>320 W. 4th Street, #750<br>Los Angeles, CA 90013<br>(213) 576-7500<br>(866) 275-2677 | **New York**<br><br>Administrator:<br><br>NYS Department of Law<br>Investor Protection Bureau<br>28 Liberty Street, 21st Floor<br>New York, NY 10005<br>(212) 416-8285 (Phone)<br>(212) 416-6042 (Fax)<br><br>Agents for Service of Process:<br><br>New York Department of State<br>One Commerce Plaza<br>99 Washington Avenue, 5th Fl<br>Albany, NY 12231-0001<br>(518) 473-2492 |
| **Hawaii**<br><br>Commissioner of Securities of the State of Hawaii<br>335 Merchant Street, Room 203<br>Honolulu, HI 96813<br>(808) 586-2722<br><br>Agents for Service of Process:<br><br>Commissioner of Securities of the State of Hawaii<br>Department of Commerce<br>and Consumer Affairs<br>Business Registration Division<br>335 Merchant Street, Room 203<br>Honolulu, HI 96813<br>(808) 586-2722 | **Rhode Island**<br><br>Department of Franchise Regulation<br>1511 Pontiac Avenue<br>John O. Pastore Complex, Bldg. 69-1<br>Cranston, RI 02920<br>(401) 462-9527 |
| **Illinois**<br><br>Illinois Attorney General<br>Chief, Franchise Division<br>500 South Second Street<br>Springfield, IL 62706<br>(217) 782-4465 | **South Dakota**<br><br>Division of Insurance<br>Securities Regulation<br>124 S Euclid, Suite 104<br>Pierre, SD 57501<br>(605) 773-3563 |

| | |
|---|---|
| **Indiana**<br><br>Secretary of State<br>Securities Division<br>302 West Washington Street, Room E-018<br>Indianapolis, IN 46204<br>(317) 232-6681 | **Virginia**<br><br>State Corporation Commission<br>Division of Securities and Retail Franchising<br>1300 E. Main Street, 9th Floor<br>Richmond, VA 23219<br><br>Agents for Service of Process:<br><br>Clerk of the State Corporation Commission<br>1300 E. Main Street, 1st Floor<br>Richmond, VA 23219 |
| **Maryland**<br><br>Office of the Attorney General<br>Securities Division<br>200 St. Paul Place, 20th Floor<br>Baltimore, MD 21202<br>(410) 576-6360<br><br>Agents for Service of Process:<br><br>Maryland Securities Commissioner<br>200 St. Paul Place<br>Baltimore, MD 21202-2020 | **Washington**<br><br>Dept. Of Financial Institutions<br>Division of Securities<br>150 Israel Road SW<br>Tumwater, WA 98501<br><br>P.O. Box 9033<br>Olympia, WA 98507<br>(360) 902-8760<br>Fax: (360) 902-0524 |
| **Michigan**<br><br>Michigan Department of Attorney General<br>Consumer Protection Division<br>525 W. Ottawa Street<br>Lansing, MI 48913<br>(517) 373-7117 | **Wisconsin**<br><br>Department of Financial Institutions<br>Division of Securities<br>201 W. Washington Avenue<br>Madison, WI 53703<br>(608) 266-3364 |
| **Minnesota**<br><br>Minnesota Department of Commerce<br>Securities-Franchise Registration<br>85 Seventh Place East, Suite 280<br>St. Paul, MN 55101-3165<br>(651) 539-1600<br><br>Agents for Service of Process:<br><br>Commissioner of Commerce<br>Minnesota Department of Commerce<br>85 Seventh Place East, Suite 280<br>St. Paul, MN 55101-3165<br>(651) 539-1600 | |

| | |
|---|---|
| **North Dakota**<br><br>North Dakota Securities Department<br>State Capitol, Fifth Floor, Dept. 414<br>600 East Boulevard<br>Bismarck, ND 58505-0510<br>(701) 328-4712<br><br>Agents for Service of Process:<br><br>Securities Commissioner<br>North Dakota Securities Department<br>State Capitol, Fifth Floor, Dept. 414<br>600 East Boulevard<br>Bismarck, ND 58505-0510<br>(701) 328-4712 | |

# EXHIBIT 5

# PREAUTHORIZED BANK DEDUCTION PROCEDURE

# AUTHORIZATION TO HONOR CHECKS DRAWN BY & PAYABLE TO PIZZA GUYS FRANCHISES, INC.

| | |
|---|---|
| **MY NAME EXACTLY AS IT APPEARS ON MY BANK ACCOUNT:** | |
| **MY BANK ACCOUNT NO.:** | **MY *PIZZA GUYS*® FRANCHISE NO.:** |
| **MY FULL NAME:** | |
| **MY STREET ADDRESS:** | |
| **MY CITY, STATE, ZIP CODE:** | |

**I, the above-named account holder, hereby authorize and direct you to pay and charge to my account, checks (or other debit entries by electronic or paper means) drawn on the above account by and payable to the order of PIZZA GUYS FRANCHISES, INC. Your rights in respect to each such check (or other debit entry by electronic or paper means) shall be the same as if it were a check drawn on you and signed personally by me.**

**In order to induce you to honor checks (or other debit entries by electronic or paper means) presented for payment pursuant to this preauthorized deduction procedure, I hereby release, indemnify and agree to defend you from and against any obligation, loss, liability or damage caused by, or related to, the honor of any and all checks (or other debit entries by electronic or paper means) presented for payment pursuant to this preauthorized bank deduction procedure.**

**I hereby direct you not to cancel this preauthorized bank deduction procedure. I further direct you to provide PIZZA GUYS FRANCHISES, INC. written notice 30 days in advance of any change which would affect such preauthorized bank deduction procedure. This directive is to remain in full force and effect until you receive written notification of its termination from PIZZA GUYS FRANCHISES, INC. in such time and in such manner so as to afford you a reasonable time to act upon it. The directives contained herein are irrevocable by me.**

| |
|---|
| **BANK FULL NAME:** |
| **BANK STREET ADDRESS:** |
| **CITY, STATE, ZIP CODE:** |

## ATTACHED HERETO IS MY <u>VOIDED CHECK</u>

***(to provide you necessary information regarding my checking account)***

**Date** _____ _____

**(My signature exactly as it appears on my bank account records)**

**TO: THE ABOVE-NAMED BANK**

**If you have any questions regarding this document, please direct them to:**

**Reza Kalantari, Chief Financial Officer**
**Pizza Guys Franchises, Inc.**
**2731 Citrus Road, Ste. A**
**Rancho Cordova, CA 95742**
**(916) 852-2222**

# EXHIBIT 6

# TELEPHONE NUMBER LEASE

# *Pizza Guys*® TELEPHONE NUMBER LEASE
(WITH PERSONAL GUARANTEE)

**1. Parties.** This Telephone Number Lease ("Agreement"), dated _____ is made by and between _____ _____ (referred to singularly and collectively as "Lessee" or "you" herein) and PIZZA GUYS FRANCHISES, INC., a California corporation, (referred to as "Lessor," "us" or "we" herein).

**2. *Pizza Guys*® Store.** You are, or intend to be, our franchisee under that existing or proposed *Pizza Guys*® franchise agreement (referred to as the *"Franchise Agreement"* herein) made, or to be made for that *Pizza Guys*® store located or to be located in the general vicinity of: _____ (referred to as the "premises" herein).

**3. Telephone Number Leased.** We hereby lease to you and you hereby lease from us for the rent set forth below, one or more telephone numbers. The following telephone number (referred to as the "main telephone number") shall be the only telephone number used for advertising your *Pizza Guys*® store:

**(____) _____-_____**
***(Only the above number shall be advertised)***

**You may not distribute advertising materials with your phone number on it outside of your 2-mile radius.**

**4. Ownership, Restriction and Use of Telephone Numbers; Additional Numbers.** We will retain ownership of the telephone numbers including, but not limited to the main telephone number. We may restrict the telephone numbers to receive calls only or, if unavailable, to receive calls but restricted to place local calls only, or otherwise as we, in our sole and absolute discretion, from time to time decide. The main telephone number listed above shall be the one (1) and only telephone number used to advertise the store, its goods, services and business. You may install additional telephone number(s) to place and receive local and long distance calls but you may not advertise such telephone number(s). We have the absolute right to select and change, at any time, the telephone company which will provide telephone service for the leased telephone number. **You may not distribute advertising materials with your phone number on it outside of your 2-mile radius.**

**5. Payment.**

**5.01 Advance Rent and Deposit.** There is no deposit required to be paid to us. Deposits and advance rent may be required by the telephone service and same would be paid directly to the vendor if required.

**5.02 Reimbursement.** You shall promptly reimburse us without offset or deduction for all charges advanced by us associated with installing and maintaining the leased telephone numbers.

**6. Term, Renewal, Termination and Expiration.** The term of this telephone number lease shall be

the term of your *Pizza Guys*® franchise and the lease shall expire upon termination or expiration of the franchise term. In the event that you renew your *Pizza Guys*® franchise, you must renew this telephone number lease and it shall be deemed automatically renewed if the *Pizza Guys*® franchise is renewed.

**7. No Use of Telephone Leased Number after Expiration, Non-renewal or Termination.** The main telephone number embodies a significant portion of the goodwill of the *Pizza Guys*® store. Accordingly, you shall immediately cease using the main telephone number and all other leased telephone numbers in the event that your *Pizza Guys*® franchise expires, is nonrenewed or is terminated, or is declared in default and the main telephone number redirected.

**8. Limitation of Obligations of Lessor; Indemnification; Waiver of Claims.** You agree that we are not the telephone company and that we do not assume and are not obligated to perform any of the telephone company's obligations. Accordingly, we do not guarantee uninterrupted or quality service or accurate billing and you shall look solely to the telephone company for telephone service continuity and quality, accurate billing and the like. In the event of any dispute between the telephone company and you, whether or not we are also named as a party, you shall indemnify us against any obligation, loss, liability or damage caused by, or related to, the same. You hereby forever release us from any obligation to perform the obligations of the telephone company, and, with respect to such release, you hereby waive all rights conferred upon you by the provisions of Section 1542 of the Civil Code of California, which reads as follows: "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known to him must have materially affected his settlement with the debtor."

**9. Lessor's Remedies Against Lessee Upon Default.**

**9.01 Lessee's Default Defined.** You understand that this Agreement is entered into so that you may operate a *Pizza Guys*® store on the premises. Accordingly, you understand that your right to use the leased telephone numbers is subject to all the provisions of this Agreement, the store premises lease, the *Pizza Guys*® *Franchise Agreement* and any other agreement entered into between you and us. Accordingly, any act or omission which violates any of the provisions of such agreements shall, automatically, be deemed a default under this Agreement.

**9.02 Lessor's Remedies. IN ADDITION TO ALL RIGHTS AND DEFENSES CONFERRED UPON US BY THIS AGREEMENT, AS BETWEEN YOU AND US, WE SHALL HAVE ALL THE RIGHTS AND DEFENSES CONFERRED UPON US BY LAW OR EQUITY AND WHEN WE EXERCISE OUR RIGHTS OR DEFENSES AGAINST YOU, YOU SHALL HAVE NO EXCUSE OR DEFENSE THAT WE OR OUR AFFILIATE(S) ALSO OCCUPY THE RELATIONSHIP OF FRANCHISOR, SUBLESSOR, OR OTHERWISE TO YOU. IF YOU DO NOT AGREE WITH THIS PROVISION OR ANY OTHER PROVISION OF THIS AGREEMENT DO NOT ENTER INTO THE FRANCHISE RELATIONSHIP.**

**9.03 Authority to Redirect Telephone Calls.** You may use the leased telephone numbers so long as you are not in default of this Lease, the *Pizza Guys*® *Franchise Agreement* or any other agreement between you and us or our affiliates, if any. Upon your default you forfeit your right to use the leased telephone numbers including, but not limited to the main telephone number, and **YOU HEREBY SPECIFICALLY AND IRREVOCABLY AUTHORIZE US TO TERMINATE THE LEASED TELEPHONE NUMBERS OR TO REDIRECT THE CALLS RECEIVED BY THE LEASED TELEPHONE NUMBERS TO ANOTHER LOCATION FROM WHICH WE OR ANOTHER FRANCHISEE MAY SERVE YOUR CUSTOMERS.**

**10. Indemnification.** You shall defend, indemnify and hold us harmless from all liability, costs, judgments, damages, claims or demands, including reasonable attorneys' fees, arising out of your use of the leased telephone numbers.

**11. Miscellaneous.**

**11.01 Agreement to Submit Disputes to a Referee Pursuant to the Provisions of California Code of Civil Procedure §§638 through 645.1; Punitive and Noneconomic Damages Not Awardable; Trademark Matters Not Arbitrable; Choice of Forum; Choice of Law.**

Except as specifically limited below, any dispute between you and us regarding this Agreement and all matters relating to the validity, construction, performance and enforcement hereof shall be heard by a referee pursuant to the provisions of California Code of Civil Procedure §§638 through 645.1, inclusive, according to the following procedures:

(a) The parties shall agree upon a single referee who shall then try all issues, whether of fact or law, and report a finding and judgment thereon. If the parties are unable to agree upon a referee within ten (10) days of a written request to do so by any party, then any party may thereafter seek to have a referee appointed pursuant to California Code of Civil Procedure §§638 and 640;

(b) The parties agree that the referee shall have the power to decide all issues of fact and law and report his/her decision thereon, and to issue all legal and equitable relief appropriate under the circumstances of the controversy before him/her; provided, however, that to the extent the referee is unable to issue and/or enforce any such legal and equitable relief, either party may petition the court to issue and/or enforce such relief on the basis of the referee's decision;

(c) The California Evidence Code rules of evidence and procedure relating to the conduct of the hearing, examination of witnesses and presentation of evidence shall apply;

(d) Any party desiring a stenographic record of the hearing may secure a court reporter to attend the hearing; provided, the requesting party notifies the other parties of the request and pays for the costs incurred for the court reporter;

(e) The referee shall issue a written statement of decision which shall be reported to the court in accordance with California Code of Civil Procedure §643 and mailed promptly to the parties;

(f) Judgment may be entered on the decision of the referee in accordance with California Code of Civil Procedure §644, and the decision may be excepted to, challenged and appealed according to law;

(g) The parties shall promptly and diligently cooperate with one another and the referee, and shall perform such acts as may be necessary to obtain a prompt and expeditious resolution of the dispute or controversy in accordance with the terms hereof; and

(h) The cost of such proceeding, including but not limited to the referee's fees, shall initially be borne equally by the parties to the dispute or controversy. However, the prevailing party in such proceeding shall be entitled, in addition to all other costs, to recover its contribution for the costs of the reference and its reasonable attorney's fees as items of recoverable costs.

Notwithstanding the foregoing, we or our affiliates may, but are not required to, seek provisional and summary remedies including, but not limited to, writs of possession and attachment, unlawful detainer, forcible eviction and detainer and the like, and injunctions and temporary restraining orders in civil litigation proceedings. Any hearing shall be heard in Sacramento, California. The forum for any legal action shall be the proper court of the state of California in and for the County of Sacramento or the

United States District Court for the Eastern District of California, Sacramento Branch.

**11.02 Cost of Enforcement or Defense.** Attorneys' fees shall not be recoverable as a cost of any dispute submitted to referee. The referee's fees shall be borne by either you or us or by both of you and us in such proportion as the referee(s) shall decide.

**11.03 Notices.** Any notice or demand given or made pursuant to this Agreement: (a) Shall be in writing; (b) Shall be personally delivered, posted by registered, certified or other receipted mail or delivered by telegram to the address on the last page hereof or at such changed address or addresses as such party may from time to time designate; and (c) Shall contain a clearly stated reason for such notice. Notices of expiration shall contain a clear statement of the reason for expiration, and the effective date of such expiration. Notices of termination shall contain a clear statement of intent to terminate the lease under this Agreement: (1) together with the reasons therefor, and (2) the effective date of such termination.)

**11.04 Successors.** This Agreement shall be binding on and inure to the benefit of the parties and their successors.

**11.05 Assignment and Subletting.** Notwithstanding anything contrary contained in this Agreement or elsewhere, you have no right to assign or sublet the leased telephone number and any such attempt shall be void.

**11.06 Entire Agreement.** This Agreement constitutes and contains the entire agreement and understanding of you and us with respect to its subject matter. There are no representations, undertakings, agreements, terms, or conditions not contained herein.

**11.07 Modification.** This Agreement may be amended or modified only by a writing referencing this Agreement and stating that it is a modification thereof. Such writing must be signed by authorized representatives of the parties. Only our President is authorized to sign for us, and no modification signed by any other representative of us shall be binding upon us.

**12. Condition Subsequent.** If, for any reason, you do not receive possession of the store premises, we are not required to lease you the telephone number and you shall have no action against us for the same.

**13. Signatures.**

**Lessee**

All persons signing this Agreement for you agree, warrant and represent that they constitute all of your legal and beneficial owners, partners, shareholders, officers and directors and that, together, they own the entire interest in this Agreement, in the business of your store and in its income.

**Personal Guarantee:** Each person signing this Agreement for franchisee, having read this entire Agreement and being directly or indirectly beneficially interested in the store to be conducted by the franchisee, and to induce us to enter into this franchise with franchisee, hereby jointly and severally guarantee the performance of franchisee and each other person signing this Agreement for franchisee including, with6ut limitation, the performance of this Agreement and any other agreement with us including the payment of all sums due hereunder or thereunder. Each person signing this Agreement for franchisee hereby expressly waives any modification, amendment, extension or renewal of this Agreement, the franchise granted hereby, and this guarantee and any notice thereof and waives notice of default. Nothing herein shall be deemed to abrogate or impair any separate instrument of guarantee or subordination which the undersigned may have previously signed or may contemporaneously herewith or

hereafter sign. This guarantee shall be considered a continuing guarantee.

| | |
|---|---|
| _____ | _____ |
| *(Signature)* | *(Signature)* |
| _____ | _____ |
| *(Typed or printed name and capacity of Signer)* | *(Typed or printed name and capacity of Signer)* |
| _____ | _____ |
| *(Signature)* | *(Signature)* |
| _____ | _____ |
| *(Typed or printed name and capacity of Signer)* | *(Typed or printed name and capacity of Signer)* |

**Lessor**

PIZZA GUYS FRANCHISES, INC.
2731 Citrus Road, Ste. A-1
Rancho Cordova, California 95742
Tel.: (916) 852-2222

By:_____
Shahpour M. Nejad, President

# EXHIBIT 7

## TRANSFER ADDENDUM

**TRANSFER ADDENDUM**

This Transfer Addendum made and entered into on _____by and between Pizza Guys Franchises, Inc. ("Franchisor") and _____ ("Franchisee").

RECITALS

WHEREAS, Franchisor and Franchisee are parties to a Franchise Agreement (the "Agreement") dated _____ (the "Effective Date") as a result of an approved store transfer;

WHEREAS, Franchisor and Franchisee wish to amend the Agreement to reflect Franchisee's status as a transferee franchisee for the Franchised Business described as ***Pizza Guys®*** #_____ located at _____; and

WHEREAS, all capitalized terms not otherwise defined in this Transfer Addendum shall have the same meaning as in the Agreement.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. The following Sections of the Agreement are null and void only to the extent that they deal with the purchase of a new, nonoperational, Pizza Guys Franchise and not a transfer, and shall have no force or effect: 2.01, 2.02, 5.01(a), and 6.01. Notwithstanding anything to the contrary, Franchisee has completed or shall be required to complete all necessary training as defined in Article 3 of the Agreement to Franchisor's satisfaction

2. This Transfer Addendum constitutes the entire and complete agreement between Franchisor and Franchisee concerning the subject matter hereof, and supersedes any and all prior agreements. No amendment, change, or variance from this Transfer Addendum shall be binding on either party unless mutually agreed to in a writing signed by both parties.

3. This Transfer Addendum forms an integral part of the Agreement. Except as modified or supplemented by this Transfer Addendum, the terms of the Agreement are hereby ratified and confirmed.

IN WITNESS THEREOF, the Franchisor and Franchisee have executed this Transfer Addendum effective as of the date set forth in the preamble of this Transfer Addendum.

| **FRANCHISOR:** | **FRANCHISEE:** |
|---|---|
| PIZZA GUYS FRANCHISES, INC. | _____ |
| By: _____ | By: _____ |
| Printed:_____ | Printed:_____ |
| Title: _____ | Title: _____ |
| Date: _____ | Date: _____ |

# EXHIBIT 8

# STORE OPERATIONS MANUAL

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PIZZA GUYS
Store Operations Manual

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- *Catering Order Form*
- *Emergency Telephone List*
- *Deposit Record*
- *Weekly Sales Recap*
- *Food Illness Complaint Form*

# EXHIBIT 9

# CALIFORNIA STATE ADDENDUM

CALIFORNIA - The following information is for California residents:

INFORMATION REQUIRED BY
THE STATE OF CALIFORNIA

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

2. The Franchise Agreement may provide for termination upon bankruptcy. Any such provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. SEC. 101 et seq.).

3. The Franchise Agreement contains a covenant not to compete provision which extends beyond the termination of the Franchise. Such provisions may not be enforceable under California law.

4. Section 31125 of the California Corporation Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

5. Neither Franchisor nor any other person listed in Item 2 of the FDD is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

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

7. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable. Any such provisions contained in the Franchise Agreement may not be enforceable.

8. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE FDD.

9. OUR WEBSITE, www.pizzaguys.com, HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT www.dbo.ca.gov.

## STATE EFFECTIVE DATES

The following States require that the Franchise Disclosure Document be registered or filed with the State, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

| State | Effective Date |
|---|---|
| California | Pending |
| Hawaii | |
| Illinois | |
| Indiana | |
| Maryland | |
| Michigan | |
| Minnesota | |
| New York | |
| North Dakota | |
| Rhode Island | |
| South Dakota | |
| Virginia | |
| Washington | |
| Wisconsin | |

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

## RECEIPT

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

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

If Pizza Guys does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 29580 and the state agency listed in Exhibit 4.

The name, principal business address, and telephone number of each franchise seller offering the franchise is: Shahpour M. Nejad, 2731 Citrus Road, Ste. A-1, Rancho Cordova, California 95742, (916) 852-2222, Reza Kalantari, 2731 Citrus Road, Ste. A-1, Rancho Cordova, California 95742, (916) 852-2222, and Michael Morgan, 2731 Citrus Road, Ste. A-1, Rancho Cordova, California 95742, (916) 852-2222.

Issuance Date: March 30, 2020

PIZZA GUYS' registered agent authorized to receive service of process is: Shahpour M. Nejad, 2731 Citrus Road, Ste. A-1, Rancho Cordova, California 95742.

I received a Disclosure Document dated March 30, 2020 that included the following Exhibits:

1. Franchise Agreement
2. Multi-Unit Development Agreement
3. Financial Statements
4. State Administrators and Agents for Service of Process
5. Preauthorized Bank Deduction Procedure
6. Telephone Number Lease
7. Transfer Addendum
8. Store Operations Manual - Table of Contents
9. California State Addendum

(Signature) _____ Date Received:_____

(Print Name) _____ Date Signed:_____

individually and as an
officer or partner of
(a_____corporation)
(a_____partnership)
(a_____ limited liability co.)

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(Signature) _____ Date Received:_____

(Print Name) _____ Date Signed:_____

individually and as an
officer or partner of
(a_____corporation)
(a_____partnership)
(a_____ limited liability co.)