

# **FRANCHISE DISCLOSURE DOCUMENT**



**TOM N TOMS COFFEE**

**TOM N TOMS FRANCHISE, LLC**

## FRANCHISE DISCLOSURE DOCUMENT



**TOM N TOMS FRANCHISE, LLC**  
**3435 Wilshire Blvd., Suite 2090, Los Angeles, CA 90010**  
**Tel: (213) 908-6829 Fax: (213) 568-3584**

As a Tom N Toms franchisee, you will operate a specialty coffeehouse offering premium coffee products and complementary food and beverages.

The initial investment necessary to begin operation of a Tom N Toms franchised business ranges from \$370,400 to \$487,300. This includes \$30,000 that must be paid to the franchisor as a franchise fee, and the initial inventory purchase requirement ranging from \$12,900 to \$23,000, which is paid to us or our affiliate. In the case of an area developer, the development fee to be paid to the Franchisor is equal to \$30,000 for the first Coffeehouse plus \$15,000 for each additional Coffeehouse to be developed under the area development agreement. The development fee is applied pro rata to the initial franchise fees due for each Coffeehouse to be developed after the first. Your estimated initial investment will vary based on the number of Coffeehouse to be developed within the area specified in the area development agreement, under which you will have exclusive right to develop an agreed number of Coffeehouses within a specific time period.

This Disclosure Document summarizes certain provisions of your franchise agreement, development 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 Cheolku Lee at 3435 Wilshire Blvd., Suite 2090, Los Angeles, CA 90010 and (213) 908-6829.

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

Buying a franchise is a complex investment. The information in this Disclosure Document can help you make up your mind. More information on franchising, such as "A Consumer's Guide to Buying a Franchise," which can help you understand how to use this Disclosure Document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit

the FTC's home page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date: May 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 franchisees. You can find their names and contact information in Item 20 or Exhibits F and G. |
| 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 G 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 Tom N Toms 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 Tom N Toms franchisee?                                     | Item 20 or Exhibits E and F 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 A.

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

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

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

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

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

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RECEIPTS

**ITEM 1**  
**THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES**

**A.     Terms**

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

**B.     Our Business**

We are in the business of selling franchises for a coffeehouse operating under the Tom N Toms name and related marks. A Tom N Toms Coffeehouse ("Coffeehouse") specializes in the preparation and sale of premium coffee drink products as well as complementary food and beverages. They are located at locations approved by us, such as in strip shopping centers, shopping malls, and free-standing units.

We offer single unit franchises for development and operation of Tom N Toms Coffeehouses. We also offer area development franchises for the right to develop and operate more than one Tom N Toms Coffeehouses. The specific territory, the number of Coffeehouses to be developed and opened under the area development franchise and the time requirements for developing and opening the agreed Coffeehouses will be mutually discussed and agreed between us and the area developer and set forth specifically in the Area Development Agreement. An area developer will be required to sign our then-current form of franchise agreement after the site of Coffeehouse is selected and approved.

**C.     We, Our Parents Predecessors and Affiliates**

We are a California limited liability company formed on January 30, 2012. Our principal business address is 3435 Wilshire Blvd., Suite 2090, Los Angeles, CA 90010. We do business under our corporate name "Tom N Toms Franchise" and our brand names "Tom N Toms," "Tom N Toms Coffee" and "Tom N Toms Coffeehouse." We do not do business under any other name. We have no predecessors, and we have not offered franchises for any other line of business. We started offering Tom N Toms franchises in March 2012.

We are a wholly owned subsidiary of Tom N Toms USA, Inc., a California corporation formed on February 28, 2008, and is headquartered at 3435 Wilshire Blvd., Suite 2090, Los Angeles, CA 90010 ("Parent Company"). Parent Company is a holding company, and owns either all or controlling interests in all of our Affiliates identified below which operate Tom N Toms Coffeehouses. Parent Company has not offered franchises in any line of business and does

not otherwise conduct any business of the type offered to you in this Disclosure Document.

We currently have three affiliates. Tom N Toms Wilshire One, LLC was incorporated in California as a limited liability company on August 28, 2011 ("TNT Wilshire"). TNT Wilshire's principal address is 3974 Wilshire Blvd., Los Angeles, CA 90010. It owns and operates one (1) Tom N Toms Coffeehouse in Los Angeles, which was opened in December 2011. TNT Wilshire has neither offered any Tom N Toms Coffeehouse franchises nor has it offered franchises in any other lines of business.

Tom N Toms Waa Waa Plaza, LLC was incorporated in California as a limited liability company on November 2, 2011 ("TNT WWP"). TNT WWP's principal address is 125 N. Western Ave., #113, Los Angeles, CA 90004. It owns and operates one (1) Tom N Toms Coffeehouse in Los Angeles, which was opened in June 2012. TNT WWP has neither offered any Tom N Toms Coffeehouse franchises nor has it offered franchises in any other lines of business.

Tom N Toms Vantage Point, LLC was incorporated in California as a limited liability company on August 2, 2013 ("TNT VP"). TNT VP's principal address is 1229 9<sup>th</sup> Ave., San Diego, CA 92101. It owns and operates one (1) Tom N Toms Coffeehouse in San Diego, which was opened in May 2014. TNT VP has neither offered any Tom N Toms Coffeehouse franchises nor has it offered franchises in any other lines of business.

None of our Affiliates offer or provides, or will offer or provide, any products or services to our franchisees.

#### **D. Special Industry Regulation**

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

Federal and state laws affecting businesses generally include smoking restrictions, public posting of notices re health hazards (e.g., tobacco smoke or other carcinogens), fire safety and emergency preparedness laws, rules on use, storage and disposal of waste, insecticides and other hazardous materials, environmental laws that may impact the operation of Coffeehouses (like laws on recycling and regulating the use of certain types of containers and materials potentially harmful to the environment), and standards regarding sanitation, employee health and safety. Some areas have or are considering proposals to regulate indoor air quality. Many places have laws against smoking inside Coffeehouses

A new trend is state and local laws requiring posting and disclosure of nutritional information at Coffeehouses. The Health Care Reform Bills that became law in March 2010 contain provisions that require disclosure of nutrition and calorie information in chains of more than 20 Coffeehouses.

You should investigate all general laws in evaluating the franchise.

**E. Competition and the Market**

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

**F. Agent for Service of Process**

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

**ITEM 2  
BUSINESS EXPERIENCE**

President and CEO: Cheolku Lee

Cheolku Lee is our President and CEO and has been with us since July 2015. Prior to his appointment as our President and CEO, Mr. Lee served as our General Manager, overseeing all of our development and operational activities. Before joining our company, he served as an accounting manager of Edwards Korea and Crown Confectionery Co., Ltd. in Seoul, Korea since August 2007.

Do Kyun Kim had been our previous President and CEO in charge of all our development and operations until June 2013 at which time he had to return to Korea to receive medical treatment. Although he oversaw and was in

charge of our business activities while receiving medical treatment in Korea, his physical absence from our operations was cited as an issue in a dispute with a former franchisee as well as in the litigation disclosed in Item 3. In entering into a settlement with the Commissioner of Business Oversight in the litigation disclosed in Item 3, we voluntarily agreed to replace Mr. Kim with Mr. Lee, who will be charge of approval of all phases of the Tom N Toms franchise and who is based in Los Angeles, California.

Operation Manager: Jun Ho Son

Jun Ho Son has been our Operation Manager since May 2019. Before his current position, Mr. Son was our Operation Supervisor Tom N Toms USA, Inc. in Los Angeles, California from July 2015 to November 2017 a Store Manager from January 2015 to July 2015 at Tom N Toms Vermont Galleria Coffeehouse.

### **ITEM 3 LITIGATION**

#### **Litigation Involving Tom N Toms Franchise, LLC**

California Commissioner of Business Oversight v. Tom N Toms Franchise, LLC (OAH Case Nos. 2016061013 and 2016061015). On May 12, 2016, California Commissioner of Business Oversight brought administrative actions against Tom N Toms Franchise, LLC and certain individuals associated with Tom N Toms Franchise, LLC, including a citation for desist and refrain order, assessment of administrative penalties and claim for ancillary relief and costs for various violations of California franchise laws, including making untrue statement of material facts, unregistered individual acting as a franchise seller and failure to disclose material facts. Tom N Toms Franchise, LLC denied the allegations of the violations of California franchise laws, arguing that the company did not make any untrue statements of material facts, the particular individual identified as a franchise seller was not engaged in the sale of the franchise and that all material facts had been properly disclosed to the alleged victim in the case. Tom N Toms Franchise, LLC also argued that the alleged victim was a prior franchisee who had defaulted on his franchise agreement for failure to pay royalties and breaching his obligations as a franchisee and had filed the franchise law violation against Tom N Toms Franchise LLC to gain an advantage in his settlement negotiations with Tom N Toms. Without admitting any liability or wrongdoing, on November 21, 2016, the date the administrative hearing of the cases were scheduled, Tom N Toms Franchise, LLC entered into a Final Consent Order with the Commissioner of Business Oversight to (i) pay \$15,000 as restitution to the complaining franchisee, (ii) pay \$7,500 as penalties to the Department of Business Oversight and

reimburse Commissioner's attorney's fees and costs in the amount of \$14,700, (iii) agree to desist and desist any franchise activity until such time as Tom N Toms Franchise LLC has properly registered their franchise with the Department of Business Oversight, and (iv) have the Tom N Toms franchise sellers complete eight hours of remedial education in franchise law. Tom N Toms Franchise LLC has since fully complied with all of its obligations under the Final Consent Order.

Other than the litigation disclosed in this Item 3, there is no litigation to disclose in this Item.

#### **ITEM 4 BANKRUPTCY**

No bankruptcies are required to be disclosed in this Item.

#### **ITEM 5 INITIAL FEES**

##### **A. Franchise Agreement**

You must pay a uniform initial franchise fee of \$30,000 ("Initial Franchise Fee") at the time you sign the Franchise Agreement (see Exhibit C). The Initial Franchise Fee is paid in a lump sum when you sign the Franchise Agreement and is non-refundable. The Initial Franchise Fee is payable by all franchisees who buy a Tom N Toms franchise.

We use the initial franchise fee to cover the costs of evaluating your proposed site, training you and your employees, and helping you to develop and open your Tom N Toms coffeehouse. There is no reduction or refund of any part of the initial franchise fee even if only one individual attends the initial training program.

We may offer to waive the Franchise Fee or reduce it under certain circumstances. We also may offer to waive or reduce the Franchise Fee, for the following reasons: (i) as an inducement for existing franchisees to open additional Coffeehouses, (ii) as an inducement for someone to take over an operating franchised Coffeehouse; (iii) as an inducement for a professional multi-unit franchisee to open several Coffeehouses; or (iv) to allow a franchisee to have additional money to spend on store improvements and marketing during the first 12 months of operation. We will make the decision on the amount of any waiver or reduction on an individual basis depending on the condition of the premises, the need for upgrades and remodeling, the need for special incentives and/or other considerations. In certain rare circumstances, we may permit installment payments of the Initial Franchise Fee on terms negotiated with the franchisee. Upon request by potential franchisees, we will keep open our

records with respect to the reduced fees for inspection. Except as provided above, we will not refund any part of the Initial Franchise Fee paid under the Franchise Agreement.

**B. Area Development Agreement - Development Fee**

We offer area development franchises to qualified prospects. The Area Development Agreement (see Exhibit D) grants a protected area for development and operation of multiple Tom N Toms Coffeehouses. You and we decide the development territory and number of Coffeehouses by negotiation before you sign. The Area Development Agreement does not let you sell Tom N Toms Coffeehouse franchises to others. For each Tom N Toms Coffeehouse you wish to establish under the Area Development Agreement, you and we will enter into a separate Franchise Agreement. Outside of California, we can require you to enter into an Area Development Agreement as a condition to purchasing franchises.

When you sign the Area Development Agreement, you must pay us a deposit fee equal to the sum of (i) 100% of the initial franchise fee (\$30,000) for the first Coffeehouse to be developed under the Area Development Agreement; and (ii) \$15,000 of the initial franchise fee payable for each succeeding Coffeehouse to be developed under the same Area Development Agreement ("Development Fee"). The pro rata portion of your Development Fee allocable to each Coffeehouse will be credited against the initial franchise fee due for that Coffeehouse. The Development Fee is calculated in the same way for all franchisees entering into Area Development Agreements, but the actual dollar amount paid will vary depending on the number of Coffeehouses you agree to develop.

We may offer to waive the Development Fee or reduce it under certain circumstances. We will make the decision on the amount of any waiver or reduction of the Development Fee based on any special incentives that we may consider appropriate for an area developer, including, but not limited to the following reasons: (i) as an inducement for existing franchisees to become an area developer, (ii) as an inducement for a professional multi-unit operator to become an area developer; (iii) as an inducement for someone to take over an area for development; or (iv) to allow an area developer to have additional money to spend on store improvements and marketing during the area development period. We will make the decision on the amount of any waiver or reduction on an individual basis depending on the area to be developed, total number of units to be developed, the need for upgrades and remodeling, the need for special incentives and/or other considerations. In certain rare circumstances, we may permit installment payments of the Development Fee on terms negotiated with the area developer. Upon request by potential franchisees and area developers, we will keep open our records with respect to the reduced fees for inspection. Except as provided above, we will not refund any part of the Development Fee paid under the Area Development Agreement.

### **C. Application Process**

You must complete a comprehensive franchise application. We ask you for preliminary financial and biographic information, which you are required to furnish accurately and completely. We evaluate your application and decide if more discussion with you may be productive. We charge a non-refundable fee of \$500 to conduct a background check. If you purchase the franchise, we credit the \$500 background check fee toward the initial franchise fee. If we accept your franchise application, within 30 days after we send you the notice of acceptance, you must sign the Franchise Agreement and pay the Initial Franchise Fee. If you fail to do so, we have no obligation to sell you a Tom N Toms franchise, and may, withdraw approval any time after the 30 days.

You will have 12 months to locate a proposed site for your franchise, obtain our approval and sign a lease. If you don't have a signed lease for your store within 12 months of the date of your franchise agreement, we can terminate the franchise, and keep all fees paid. We will extend the deadline by 6 months if you apply for an extension, show us your involvement and effort in locating a suitable site, and pay us a \$500 non-refundable extension fee prior to the 12 month anniversary of the franchise agreement. If you don't obtain an extension, your agreement expires on written notice to you. Any extension granted to you does not render any of the initial fee refundable.

### **D. Payment Security Deposit**

To secure your future payment obligations for equipment, products and food ingredients that you purchase from us and/or our affiliates as well as any other amounts due to us and/or our affiliates from you, you are required to deposit \$10,000 with us on signing your lease. We can apply all or portions of this deposit to pay amounts not paid as and when due from you. We can also deduct fees from this deposit for any damages we incur from your breach of any agreements signed with us. If we deduct any amount from your deposit, we will promptly notify you in writing at which time you must replenish the deposit back to \$10,000. The payment security deposit is refundable, without any interest, at the termination or expiration of your franchise agreement.

## **ITEM 6 OTHER FEES**

| <b>Type of fee</b> | <b>Amount</b>       | <b>Due Date</b>                                                                       | <b>Remarks</b>                                |
|--------------------|---------------------|---------------------------------------------------------------------------------------|-----------------------------------------------|
| Royalty Fee        | 4.0% of Gross Sales | Payable on or before Wednesday each week based on Net Sales during the prior Monday - | See Note 2 for the definition of Gross Sales. |

|                                                                                                                      |                                                                                     |                                                                                |                                                                                                                                                                                                                                  |
|----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                      |                                                                                     | <p>Sunday.</p> <p>We require payment by electronic funds transfer ("EFT").</p> |                                                                                                                                                                                                                                  |
| Marketing Fee                                                                                                        | 2% of Gross Sales                                                                   | Same as Royalty Fee                                                            | <p>This fee is due and payable at the same time and in the same manner as Royalty Fee.</p> <p>We may change at any time at our discretion the amount of the Marketing Fee on 30 days written notice.</p> <p>Also see Note 2.</p> |
| Training of Additional Personnel (More than 4) and Each Replacement Manager; Refresher and Advanced Training Courses | Presently \$500 per day; amount is based on current rate.                           | Before start of training.                                                      | <p>You must pay training fees for any additional training requested by you or training for Replacement Managers.</p> <p>Also see Note 3.</p>                                                                                     |
| Audits                                                                                                               | Actual cost of audit plus interest at the maximum rate allowable by law             | Immediately upon receipt of bill                                               | If we audit you and find that you understated the Gross Sales by 2% or more, you must reimburse us for the cost of the audit.                                                                                                    |
| Transfer Fee (Area Development)                                                                                      | Transfer fee for transfer of area development rights is 25% of the Development Fee. | Before transfer                                                                | Area Development Agreement defines the term "transfer" requiring payment of a fee.                                                                                                                                               |
| Transfer Fee (Single Unit)                                                                                           | \$10,000 or 50% of then current Initial Franchise Fee, whichever is greater         | Before transfer                                                                | Franchise Agreement defines what events are "transfer" requiring payment of a fee.                                                                                                                                               |

|                                  |                                                                                                     |                                                             |                                                                                                                                                                                                                                                                                      |
|----------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Renewal Fee                      | One-half of the then-current initial franchise fee                                                  | Before renewal                                              | You will only need to pay this fee if you renew the Franchise Agreement. There is no renewal under the Area Development Agreement.                                                                                                                                                   |
| Alternative Supplier Testing Fee | Based on our actual cost                                                                            | When approval of an alternate supplier is requested by you. | This covers the costs of testing new products or inspecting new suppliers you propose.                                                                                                                                                                                               |
| Interest on Understated Sales    | 2.0% per month or the maximum rate permitted by law, whichever is less                              | If incurred, on demand                                      | Interest on under-reported sales runs from the date you should have made your payment until the date you pay us.                                                                                                                                                                     |
| Interest on Overdue Payments     | 2.0% per month or the maximum rate permitted by law, whichever is less                              | If payments are more than 7 days overdue, on demand         | Interest on late payments runs from the date you should have made your payment until the date it is received by us.                                                                                                                                                                  |
| Insurance                        | Cost and premiums, plus interest on our outlay and a reasonable administrative fee that we will set | If incurred, on demand                                      | If you do not obtain or maintain insurance coverage and we choose to do so on your behalf, you must reimburse us                                                                                                                                                                     |
| Indemnity                        | Will vary under circumstances                                                                       | If incurred, on demand                                      | You must reimburse us for the costs we incur if we are sued or held liable for claims that arise from your operation of the Franchised Business or in connection with any offer of your securities, or for costs associated with defending claims that you used the trademarks in an |

|                                                                               |                                               |                        |                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------------------------------------------|-----------------------------------------------|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                               |                                               |                        | unauthorized manner                                                                                                                                                                                                                                                                                     |
| Testing                                                                       | Costs of testing (\$1,500 - \$2,000)          | If incurred, on demand | This covers the costs of testing new products or inspecting new suppliers you propose                                                                                                                                                                                                                   |
| Computer systems, POS system, maintenance and support                         | Costs of service (\$1,000 - \$1,300 per year) | If incurred, on demand | This covers computer system (including POS system) support and ongoing development and software upgrades that outside vendors will charge                                                                                                                                                               |
| Remodeling, decoration, structural changes for renewal of franchise agreement | Costs as incurred, but not to exceed \$70,000 | If incurred, on demand | You may be required, as a condition for renewing the franchise agreement, to undertake remodeling and decoration of your Coffeehouse, including structural changes, to meet with our standard requirements existing at the time of renewing the franchise agreement.                                    |
| Security Deposit (Franchise Agreement)                                        | \$10,000 (deposit)                            | On Request.            | You are required to deposit this amount with us as partial security for payment of amounts due to us or our affiliates. If we apply all or portions, we will notice you in writing and you must then replenish the deposit back to \$10,000. Refundable upon termination or expiration of the franchise |

|                              |                               |                                                                                               |                                                                                                                                            |
|------------------------------|-------------------------------|-----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
|                              |                               |                                                                                               | agreement without interest less any deductions for payments owed to us.                                                                    |
| Product and Supply Purchases | Varies based on order         | As incurred                                                                                   | You pay for products, supplies and other items purchased from us, according to our then current pricing schedules.                         |
| Extension Fee                | \$500                         | When requesting an extension to identify a location, sign your lease and/or open for business | Payable if you ask us for an extension                                                                                                     |
| Collection Costs             | Will vary under circumstances | As incurred                                                                                   | You pay all collection costs, attorneys fees and court costs we or our affiliate incurs for collecting amounts owed to us or our affiliate |
| Costs and Attorneys Fees     | Will vary under circumstances | As incurred                                                                                   | Awarded to prevailing party                                                                                                                |

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

NOTE 2: "Gross Sales" means all sales you make from the operation of your Tom N Toms Coffeehouse, including but not limited to, sales from delivery services and the retail value of all food and other merchandise of any kind sold through coupon redemption or otherwise given away for which reduced or no cash is received except sales taxes. The Franchise Agreements requires payment by electronic funds transfer ("EFT").

Although we are not currently collecting Marketing Fee, if we resume collection in accordance with this Item 6, we may increase the Marketing Fee up to a maximum of 2% of your Net Sales. Increases become effective on at least 30 days written notice.

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

NOTE 4: We previously charged fees in connection with Design and Conceptual Drawing services as well as the Construction and Inspection Supervision services. In an effort to provide more flexibility to our franchisees in selecting their preferred service providers and to help reduce the initial financial burden for our franchisees, we have decided to remove these fees. However, this change does not impact our work with our franchisees and their nominated service providers, including general contractors and architects, to ensure that the design and construction process is conducted fully in accordance with our standards and requirements of a Tom N Toms Coffeehouse.

# **ITEM 7** **ESTIMATED INITIAL INVESTMENT**

This chart estimates your initial investment for one Tom N Toms Coffeehouse located in an in-line/in-cap location in a shopping or retail center, with approximately 1,000 to 2,500 square feet for the Coffeehouse.

| Type of Expenditure                                                              | Amount              | Method of Payment | When Due                          | To Whom Payment Made          |
|----------------------------------------------------------------------------------|---------------------|-------------------|-----------------------------------|-------------------------------|
| <b>Initial Franchise Fee (1)</b>                                                 | \$30,000            | Lump sum          | At signing of Franchise Agreement | Us                            |
| <b>Real Estate Security/Utility Deposits, Licenses and Prepaid Fees (2) (10)</b> | \$6,000-\$12,000    | As arranged       | When Incurred                     | Landlord, Government Agencies |
| <b>Equipment &amp; Furniture (3)</b>                                             | \$68,000-\$80,000   | As arranged       | When Incurred                     | Suppliers                     |
| <b>Leasehold Improvements (4)</b>                                                | \$204,000-\$262,000 | As arranged       | When Incurred                     | Us and Suppliers              |
| <b>Opening Inventory (5)</b>                                                     | \$12,900-\$23,000   | As arranged       | When Incurred                     | Suppliers and Franchisor      |
| <b>Insurance (6)</b>                                                             | \$5,500-\$8,300     | As arranged       | When Incurred                     | Insurance Provider            |
| <b>Signage, Menu Board (7)</b>                                                   | \$10,000-\$20,000   | As arranged       | When Incurred                     | Suppliers                     |

|                                                  |                                                    |             |                           |                         |
|--------------------------------------------------|----------------------------------------------------|-------------|---------------------------|-------------------------|
| <b>Payment Security Deposit (8)</b>              | \$10,000                                           | Lump Sum    | Upon signing of the lease | Us                      |
| <b>Grand Opening Promotion (8)</b>               | \$1,000-\$2,000                                    | As arranged | When Incurred             | Suppliers               |
| <b>Cash Registers/Other Office Equipment (9)</b> | \$8,000-\$10,000                                   | As arranged | When Incurred             | Suppliers               |
| <b>Additional Funds - 3 months (11)</b>          | \$15,000-\$30,000                                  | As arranged | When Incurred             | Employees and Suppliers |
| <b>TOTAL BASIC PACKAGE</b>                       | <b>\$370,400-\$487,300 (excluding real estate)</b> |             |                           |                         |

1. The Initial Franchise Fee is non-refundable. All other fees are also non-refundable. If you sign the Area Development Agreement, you must pay us a development fee equal to the sum of (i) 100% of the Initial Franchise Fee (\$30,000) for the first Coffeehouse to be developed under the Area Development Agreement; and (ii) \$15,000 of the Initial Franchise Fee payable for each succeeding Coffeehouse to be developed under the same Area Development Agreement. This development fee is credited towards the Initial Franchise Fee required to be paid under each franchise agreement, and each \$15,000 you pay for the second and any subsequent Coffeehouses as part of the development fee shall be credited towards the initial franchise fee due for such Coffeehouses. The development fee is calculated in the same way for all franchisees entering into Area Development Agreements, but the actual dollar amount paid will vary depending on the number of Coffeehouses you agree to develop.

2. A Tom N Toms Coffeehouse occupies approximately 1,000 to 2,500 square feet of space. At your request, our staff who is familiar with commercial real estate contracts and terms can assist, at our discretion, in identifying a suitable location and negotiating lease terms with the landlord. The terms of the lease and the amount of the monthly lease payment and security deposit will likely depend on the geographic location and size and condition of the premises and the demand for the premises by other prospective tenants. These recurring overhead costs cannot be estimated. You will lease space from the owner of the mall or retail center on terms negotiated and decided by you and the owner. The lower figure contemplates a security deposit equal to one month's rent and the higher figure contemplates a security deposit equal to two months.

3. This includes all kitchen equipment/fixtures as well as dining tables and chairs, which may be supplied by our authorized vendors in Korea. At your request, we will provide a full list of items to be supplied by our authorized vendors in Korea in order that you can take into account the delivery time and potential for delay when planning your store development. Be that as it may, we will work closely with you in scheduling the delivery of these items in order to minimize any delay that may be caused by any disruption in the delivery schedule.

4. Leasehold improvement and construction costs vary significantly depending on the condition, location, size and configuration of the Coffeehouse premises, the layout of

the mall or retail center, and other factors relating to the geographic location of the business, suppliers, government regulations, labor costs and other considerations. You will contract directly with the architect, construction contractor and possibly other construction suppliers on terms negotiated by you. In addition, to ensure that the design, lease improvements and construction of your Coffeehouse comply with the applicable design and drawings and meet with our required standards and specifications, our officer in charge of Coffeehouse design and construction will conduct an on-going inspection and supervision of the entire construction process for your Coffeehouse.

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

6. You must obtain and maintain certain types and amounts of insurance. (See Item 8). Insurance costs depend on policy limits, type of policies, nature and value of physical assets, gross revenue, the number of employees, square footage, location, business contents, and other factors bearing on risk exposure. The estimate contemplates insurance costs for 3 months.

7. The lower figure contemplates one menu board and one store front signage. The higher figure is for one menu board and two store signage.

8. This amount secures your future payment obligations for equipment, products and/or food ingredients that you purchase from us or our affiliates as well as any other amounts due to us and/or our affiliates. We will apply all or portions of this deposit to pay amounts not paid as and when due from you. We can also deduct fees from this deposit for any damages we incur from your breach of any agreements signed with us. If we do deduct any amount from your deposit, we will promptly notify you in writing at which time you must replenish the deposit back to \$10,000. The payment security deposit is refundable, without any interest, at the termination or expiration of your franchise agreement.

9. This money covers your Grand Opening promotion and first 3 months of marketing. You must spend this amount on your Coffeehouse, including newspaper, direct mail advertising, and promotional items and food, such as menu brochures and promotional flyers.

10. This includes POS system, printer, DVR (includes PC), and other office equipment.

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

12. Beginning with our first Tom N Toms Coffeehouse which opened in 2010, we have relied on our experiences in developing and operating the Coffeehouses to compile these estimates. This item estimates your initial start up expenses (other than the items identified separately in the table). These expenses include payroll costs but not any draw or salary for you. These figures are estimates, and we cannot guarantee that you will not have additional expenses starting the business. Your costs depend on how much you follow our methods and procedures; your management skill, experience, and business acumen; local economic conditions; the local market for your products and services; the prevailing wage rate; competition, and the sales level reached during the initial period. We do not provide direct or indirect financing to our franchisees.

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

**A. Uniformity of Operations**

The goal of uniformity of operations is part of the Tom N Toms System. To achieve this, our Operations Manual contains mandatory specifications pertaining to all aspects of Coffeehouse operations.

We have specifications for all beverage and complementary food products sold at Tom N Toms Coffeehouses, cooking equipment, food preparation methods, recipes and ingredients. We state all specifications, and we will identify designated suppliers in the Operations Manual. We may revise the specifications and designated suppliers through written bulletins or supplements to the Operations Manual at any time.

After you sign the Franchise Agreement, we will furnish you a list of designated and recommended suppliers. Except for items we identify by designated supplier, you may purchase all goods, services, equipment, supplies, fixtures, furnishings and inventory that we require you to have to operate your Tom N Toms Coffeehouse from any supplier we recommend or from any alternative supplier whom you propose and which we approve in writing following the procedures we specify below.

**B. Obligations to Purchase Items and Services from Designated Suppliers**

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

In the case of Proprietary Products and Branded Products, suppliers will be limited to us, our affiliates and/or other specified exclusive sources designated by us (collectively "Designated Suppliers"), and you must buy those products and services only from the Designated Suppliers. We restrict your sources of Proprietary Products and Branded Products and related services in order to protect our trade secrets and know-how, assure a reliable supply of products that meet our standards, achieve better terms of purchase and delivery service, control usage of the Marks by third parties, and monitor the manufacture, packaging, processing, and sale of these items. Many of the equipment and supplies that comprise System Assets, Proprietary Products or Branded Products are purchased from Designated Suppliers located in Asia, including Korea, China and Taiwan, and these items generally take 30-40 days to be delivered. In

the case of System Assets items other than Proprietary Products and Branded Products, suppliers could, at our option, be limited to Designated Suppliers or from our list of specified exclusive suppliers, in which you would have to buy such other items only from those sources. We have the absolute right to limit the suppliers with whom you may deal. We will identify all Designated Suppliers and respective products and services in the Operations Manual or other written communications. In addition to the Proprietary Products and Branded Products, you currently must buy all of your Coffeehouse's equipment requirements from our Designated Suppliers to maintain the quality of the goods, products and services that Tom N Toms Coffeehouses sell to the customers. There are presently no suppliers in which an officer of our company owns an interest.

**C. Procedure for Approving Alternate Suppliers**

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

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

**D. Payments and Other Consideration from Approved or Designated Supplies**

We and any other affiliate have the right to receive payments or other considerations from our approved suppliers on account of their dealings with you and other franchise owners and to use all amounts that we and our affiliates receive without restrictions (unless we and our

affiliates agree otherwise with the supplier) for any purposes we and our affiliates deem appropriate. Presently, there are no such considerations paid to us from any Designated Suppliers of services or products, and we have no revenues derived from such payments or from any sale or lease of any products and services directly to franchisees.

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

We may receive rebates from suppliers from whom we or you make purchases for our or your operation of Tom N Toms Coffeehouses. We retain these benefits. Likewise, if you receive a rebate directly from a designated, recommended or approved supplier, you may retain it.

In the future, we may receive a promotional allowance, rebate, incentive payment or material non-cash benefits from approved or Designated Suppliers on account of transactions with Tom N Toms franchisees. If a supplier pays consideration on condition that we apply it for a specific purpose, like advertising, then the sums we receive will go into the Marketing Fund (see Item 11). Rebates and other cash consideration that are earmarked for advertising purposes or as a promotional allowance that suppliers pay us or our affiliates for our operation of Tom N Toms Coffeehouses will also go into the Marketing Fund. If funds a supplier pays us or our affiliates are not earmarked for advertising purposes, then we may use the funds for any purpose.

Our parent, Tom N Toms USA, Inc., is an approved supplier of certain of our proprietary and trademarked restaurant supplies sold to franchisees. In the year ending December 31, 2019, our parent's revenues from the sale of such supplies to franchisees was \$272,536.35, which makes up 58.53% of its total revenue of \$465,672.02 for 2019. You can expect items purchased or leased in accordance with our specifications will represent approximately 60% to 70% of total purchases you will make to begin operations of the business and approximately 40% to 50% of the ongoing costs to operate the business. We currently negotiate purchase arrangements with suppliers (including price terms) for Trade Secret Food Products, Branded Products, the Tom N Toms Coffeehouse's equipment, building supplies, and signage. However, we do not provide material benefits to you for using designated or approved sources or suppliers. There is no supplier in which an officer of the franchisor owns an interest.

#### **E. Insurance**

Before opening your Tom N Toms Coffeehouse you must purchase and throughout the term maintain insurance policies meeting our specifications which we provide to you after you sign the Franchise

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

**F. Additional Disclosures re: Purchasing Arrangements.**

No other purchasing arrangements exist at this time. We will notify you of changes we make to our purchasing programs and any new purchasing arrangements that we offer franchisees by written bulletins or supplements to the Operations Manual.

**G. Stopping Sales and/or Deliveries.**

We can stop selling and or delivering any or all goods and/or services to you if any payment is past due more than 14 days. This may impact your operation because our decision to stop selling and/or delivering goods does not excuse you from the obligation to comply with the Franchise Agreement and all aspects of our system, and does not modify our other remedies for your breach and/or failure to comply.

**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.**

| <b>Obligation</b>                       | <b>Article/Section in Agreements</b>                               | <b>Item(s) in Disclosure Document</b> |
|-----------------------------------------|--------------------------------------------------------------------|---------------------------------------|
| a. Site selection and acquisition/lease | Franchise Agreement: II and VII<br>Area Development Agreement: III | 6, 7, 11                              |
| b. Pre-opening purchases/ leases        | Franchise Agreement: II, VII, VIII and IX                          | 7, 8, 11                              |

| <b>Obligation</b>                                          | <b>Article/Section in Agreements</b>                                                  | <b>Item(s) in Disclosure Document</b> |
|------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------|
| c. Site development and other pre-opening requirements     | Franchise Agreement: II, VII, VIII and IX                                             | 7, 8, 11                              |
| d. Initial and ongoing training                            | Franchise Agreement: II, IV, VI and XX                                                | 7, 11                                 |
| e. Opening                                                 | Franchise Agreement: II, VI and VII                                                   | 11                                    |
| f. Fees                                                    | Franchise Agreement: V, VIII, IX, XI and XX<br>Area Development Agreement: II and III | 5, 6, 7, 11                           |
| g. Compliance with standards and policies/Operating Manual | Franchise Agreement: IV, VIII, XI and XV                                              | 8, 11, 16                             |
| h. Trademarks and proprietary information                  | Franchise Agreement: III, VIII and XI<br>Area Development Agreement: VII              | 13, 14                                |
| i. Restrictions on products/ services offered              | Franchise Agreement: VII<br>Area Development Agreement: VII                           | 8, 16                                 |
| j. Warranty and customer service requirements              | None                                                                                  | None                                  |
| k. Territorial development and sales quotas                | Area Development Agreement: III                                                       | 12                                    |
| l. Ongoing product/service purchases                       | Franchise Agreement: VIII                                                             | 8, 16                                 |
| m. Maintenance, appearance and remodeling requirements     | Franchise Agreement: VIII and XV                                                      | 11                                    |
| n. Insurance                                               | Franchise Agreement: XII                                                              | 7                                     |
| o. Advertising                                             | Franchise Agreement: IX                                                               | 6, 7, 11                              |
| p. Indemnification                                         | Franchise Agreement: XIII<br>Area Development Agreement: XIV                          | 6                                     |

| Obligation                                   | Article/Section in Agreements                                        | Item(s) in Disclosure Document |
|----------------------------------------------|----------------------------------------------------------------------|--------------------------------|
| q. Owner's participation/management/staffing | Franchise Agreement: VIII and XIX<br>Area Development Agreement: VII | 15                             |
| r. Records/reports                           | Franchise Agreement: X                                               | 6                              |
| s. Inspection/audits                         | Franchise Agreement: VII and X<br>Area Development Agreement: XII    | 6, 11                          |
| t. Transfer                                  | Franchise Agreement: XX<br>Area Development Agreement: XI            | 6, 17                          |
| u. Renewal                                   | Franchise Agreement: IX<br>Area Development Agreement: V             | 6, 17                          |
| v. Post-termination obligations              | Franchise Agreement: XVIII<br>Area Development Agreement: X          | 17                             |
| w. Non-competition covenants                 | Franchise Agreement: XIV<br>Area Development Agreement: XII          | 17                             |
| x. Dispute resolution                        | Franchise Agreement: XXX<br>Area Development Agreement: XIX          | 17                             |

## ITEM 10 FINANCING

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

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

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

### A. Pre-Opening

#### For Area Development Agreement

1. We will grant to you exclusive rights to a Development Area within which you will assume the responsibility to establish and operate an agreed-upon number of Coffeehouses within the Development Area under separate Franchise Agreements.

2. It is our standard procedure to have you identify and select a site for the Tom N Toms Coffeehouse on your own. However, we will review the site you select for conformity to our standards and criteria for potential sites and, if the site meets our criteria, approve the site for a Coffeehouse.

3. We will provide you with standard specifications and layouts for building and furnishing the Coffeehouse.

4. We will review your site plan and final build-out plans and specifications for conformity to our standards and specifications.

5. We will conduct one on-site evaluation, as we deem advisable, as part of our evaluation of the site for a Coffeehouse.

6. We will provide such other resources and assistance as may be developed and offered to our area developers.

#### **For Franchise Agreement**

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

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

3. Give you mandatory and suggested specifications and layouts for your Coffeehouse, including requirements for dimensions, design, image, interior layout, decor, fixtures, equipment, signs, furnishings and color scheme. All architectural designs for the kitchen of the Coffeehouse are required to position the refrigeration of the milk adjacent to the coffee machine.

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

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

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

**B. After Opening**

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

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

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

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

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

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

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

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

**C. Advertising and Marketing Fund**

We will establish an Advertising Fund (the "Fund") for such advertising, marketing and public relations programs as we, in our sole discretion, may deem necessary or appropriate to promote Tom N Toms

Coffeehouses. We will administer the Fund as follows:

1. We will direct all advertising and public relations programs financed by the Fund, with sole discretion of approval over agencies, spokespersons, creative concepts, materials, and media placements and allocations used in the programs. The Fund will establish and maintain an on-line presence. The Fund may be used to pay the costs of researching, preparing, maintaining, administering and directing advertising and promotional materials and programs (including the costs of preparing and conducting television, radio, magazine, newspaper, direct mail and coupon advertising campaigns and other public relations activities; employing advertising agencies; providing a toll-free number for prospective customers to call for referral purposes; and providing promotional brochures and other marketing materials to franchisees in the System). Also monies in the Fund may be used to cover administrative costs and overhead we may incur including salary costs of employees working for the Fund, up to 15%. You must participate in all advertising and public relations programs instituted by the Fund. All Coffeehouses owned by us or our affiliates will contribute to the Fund on the same basis as you. See Item 6 for the amount you are required to contribute to the Fund.

2. The Fund will be accounted for separately from our other funds. We may spend in any fiscal year an amount greater or less than the aggregate contribution of all Coffeehouses to the Fund in that year, and the Fund may borrow from us or other lenders at standard commercial interest rates to cover deficits of the Fund or cause the Fund to invest any surplus for future use by the Fund.

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

4. A statement of monies collected and costs incurred by the Fund will be prepared annually by us and will be furnished to you upon written request. We will have the right to cause the Fund to be incorporated or operated through an entity separate from us at such time as we deem appropriate, and such successor entity will have all our rights and duties.

5. The Fund is intended to maximize recognition of the Proprietary Marks and patronage of Coffeehouses generally. Although we will endeavor to utilize the Fund to develop advertising and marketing materials and programs, and to place advertising, in order to benefit all Coffeehouses, we undertake no obligation to ensure that expenditures by the Fund in or affecting any geographic area are proportionate or equivalent to the contributions to the Fund by the Coffeehouses operating in that geographic area or that any Coffeehouse will benefit directly or in proportion to its contribution to the Fund from the

development of advertising and marketing materials or the placement of advertising. Your failure to derive any such benefit will not serve as a basis for a reduction or elimination of your obligation to contribute to the Fund. We have no fiduciary obligation to you or any other Tom N Toms Coffeehouse in connection with the establishment of the Fund or the collection, control or administration of monies paid into the Fund. Except as expressly provided in the Franchise Agreement, we assume no direct or indirect liability or obligation to you with respect to the maintenance, direction, or administration of the Fund.

6. Since the Fund is not yet established as of the effective date of this Franchise Disclosure Document, no money has been collected or spent by the Fund. The Fund may place advertising in any media, including print, radio and television. The coverage is typically regional and national in nature. Advertising may be developed in-house and/or by regional and national advertising agencies. No money will be spent by the Fund to solicit new franchisees.

#### **D. Local Advertising**

1. You may, at your own cost, develop promotional materials and advertising for local use. Before distributing or publishing any advertising or promotional materials you create, you must obtain our written approval of the materials you intend to distribute. As a condition of approval, you must assign your copyright and any trademark or service mark rights in any materials you create to us, without compensation. You must permit us, the Advertising Fund and other Tom N Toms' franchisees we authorize, to use these materials without compensation.

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

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

#### **E. Advertising Cooperatives/National Advertising Council**

1. We may establish advertising cooperatives comprised of

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

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

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

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

#### **F. Operating Manual**

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

#### **G. Information System/Cash Register/Computer System**

1. You must purchase, use, maintain and update your software, computer and other POS systems that meet our specifications and requirements. There are no contractual limitations on the frequency

and cost of upgrades and updates to the systems or programs. You must comply with our then-current terms of use policies and any other requirements regarding any inter/intranet sites we establish for Coffeehouses. We have presently approved INT, Inc. as the supplier for this system, and they are located at 2223 Crenshaw Blvd., Los Angeles, CA 90016, and they can be contacted at (323) 737-9777. This supplier will install and test out the hardware and software for the computer system to ensure that it is in proper working condition. We reserve the right to replace the above supplier and appoint a new supplier or suppliers as we deem necessary at our discretion.

2. The cost of purchasing the required system is estimated to range between \$8,000-\$10,000. The estimated annual cost of optional or required maintenance, updating, upgrading or support contracts is approximately \$1,000-\$1,300.

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

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

5. You will use the computer for basic accounting practices, receiving and responding to emails, submitting monthly reports. We will have access to all data captured by these computers. There is no contractual limitation on our use of the data, although any use by us shall be for reasonable business purposes.

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

## **H. Site Selection and Opening**

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

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

## **I. Training**

1. Our new franchisee training program consists of twelve (12) days of instruction by our current management team concerning all aspects of the operation and management of the Franchised Business. The training includes review and discussion of the Confidential Operations Manual and all aspects of the operation of your business. The training should be scheduled near the time of the completion of the construction of your Tom N Toms Coffeehouse and after hiring your key employees.

2. The training will take place at our business located in Los Angeles, California, or at another location or locations as we may designate and will be conducted by our certified instructors. We may require that you and/or your designated manager(s) attend such further training programs as we shall from time to time reasonably prescribe and complete the programs to our satisfaction. There may be a fee for refresher courses, but not exceeding \$350.00 per day. The fee will be

primarily to compensate the personnel who teach the courses and to defray the expenses of such courses. A person who has successfully completed our new franchisee training program must at all times actively supervise the operation of your Tom N Toms Coffeehouse.

3. For all required initial training courses, we will provide, at no charge to you, instructors and training materials. You will be responsible for all other expenses which you or your employees incur for the purpose of this training, including the cost of transportation, lodging, meals and wages. If you need to replace your Designated Manager, the replacement Designated Manager must attend and complete the supplemental training program to our satisfaction as soon as is practicable. For this training, we charge a Supplemental Training Fee to train replacement Designated Managers, which is currently \$350.00 per day.

4. You are responsible for the recruitment and hiring of *all* of your employees. You are also responsible for the training of all Coffeehouse employees. For your Coffeehouse, one of our representatives will advise and assist you in opening the Coffeehouse by coordinating your pre-opening activities and being available to assist with your operations for up to seven (7) days for the opening of your Coffeehouse.

5. We will be available to consult with you and/or your Designated Manager by telephone, Monday through Friday 8:00 a.m. to 6:00 p.m. (Los Angeles, California time), with respect to all aspects of starting and operating your Tom N Toms Coffeehouse.

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

#### TRAINING PROGRAM

| Subject                               | Hours of Classroom Training (Note 1) | Hours of On-The-Job Training | Location                    |
|---------------------------------------|--------------------------------------|------------------------------|-----------------------------|
| Orientation                           | 1                                    | 0                            | Corporate Training Facility |
| Concept, History,Business Model       | 1                                    | 0                            | Corporate Training Facility |
| Human Resources Management            | 2                                    | 0                            | Corporate Training Facility |
| Customer Service and Sales Techniques | 0                                    | 4                            | Certified Training Facility |

|                                                         |          |           |                                                          |
|---------------------------------------------------------|----------|-----------|----------------------------------------------------------|
| Food Preparation                                        | 1        | 45        | Certified Training Facility/ Corporate Training Facility |
| Menu/Plate Presentation                                 | 1        | 4         | Certified Training Facility/ Corporate Training Facility |
| Product Ordering - Specifications and Inventory Control | 1        | 4         | Certified Training Facility/ Corporate Training Facility |
| Equipment Usage and Maintenance                         | 0        | 16        | Certified Training Facility/Corporate Training Facility  |
| Marketing and Advertising                               | 1        | 0         | Certified Training Facility/ Corporate Training Facility |
| Quality Standards and Store Sanitation                  | 1        | 7         | Certified Training Facility/ Corporate Training Facility |
| <b>Total</b>                                            | <b>9</b> | <b>80</b> |                                                          |

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

## **ITEM 12 TERRITORY**

### **A. Description of Your Territory**

#### **Area Development Agreement**

1. Under the Area Development Agreement, we grant you the right to develop and operate the number of Tom N Toms Coffeehouses in the Development Area that is specified in the Development Schedule, which is

an exhibit to the Area Development Agreement. The Development Area is typically described in terms of municipal or county boundaries but may be defined as a specified trade area in a municipality or an area having a radius of a specified distance based on a specific reference location (and, if necessary, further specified by a map on which such Development Area is marked, but in any event the minimum area for any Development Area shall be 10 square miles). The actual size of the Development Area will vary, for example, an area within 5 mile radius from your first Coffeehouse or an entire municipal city, depending upon the availability of contiguous markets, our long-range development plans, your financial and operational resources, population and market conditions. Our designation of a particular Development Area is not an assurance or warranty that there are a sufficient number of suitable sites for Tom N Toms Coffeehouses in the Development Area for you to meet your Development Schedule. The responsibility to locate and prepare a sufficient number of suitable sites is solely yours, and we have no obligation to approve sites which do not meet our criteria in order for you to meet the Development Schedule.

2. Subject to Exceptions and Reservations as described below, during the term of the Area Development Agreement, we and our affiliates will not (i) solicit or accept orders from the Development Area or (ii) operate or grant a franchise for the operation of Tom N Toms Coffeehouses to be located within the Development Area. However, we have the right to terminate this exclusivity if you are not in full compliance with all of the terms and conditions of the Area Development Agreement and all of the Franchise Agreements executed under it.

3. To maintain your rights under the Area Development Agreement you must have open and in operation the cumulative number of Tom N Toms Coffeehouses set forth on the Development Schedule by the dates set forth in the Development Schedule. Failure to do so will be grounds for either a loss of exclusivity or a termination of the Area Development Agreement.

4. In addition, upon the earlier of the expiration of the term of the Area Development Agreement or upon your execution of a Franchise Agreement for the last Tom N Toms Coffeehouse to be developed within the Development Area, your exclusive rights under the Area Development Agreement with respect to the Development Area will terminate, and we and our affiliates will have the right to operate and to grant to others development rights and franchises to develop and operate Tom N Toms Coffeehouses within the Development Area. This right will be subject only to the territorial rights under the franchise agreements entered into by you for the Tom N Toms Coffeehouses in the Development Area. The Development Area may not be altered unless we and you mutually agree to do so. It will not be affected by your sales volume. Except as the Area Development Agreement grants you the right to acquire the Optioned Outlets described above, you are not granted any other option, right of first refusal or similar right to acquire additional Tom N Toms Coffeehouses in your Development Area under the Area Development

Agreement.

### **Franchise Agreement**

5. Under the Franchise Agreement we grant you the right to operate a Tom N Toms Coffeehouse at a specific location and within a specified area ("Your Territory"). If your Tom N Toms Coffeehouse is located in a Business Zone, Your Territory will be an area of 0.2 (two-tenths) of one mile from your Tom N Toms Coffeehouse. "Business Zone" refers to an area concentrated with high-density commercial businesses, and we alone decide whether to designate an area as a Business Zone, considering demographic factors which we identify in the Operations Manual or otherwise in writing to you. If your Coffeehouse is not within a Business Zone, Your Territory will be an area measuring 0.5 mile from your Tom N Toms Coffeehouse.

6. Subject to Exceptions and Reservations as described below, during the term of the Franchise Agreement, we and our affiliates will not (i) solicit or accept orders from Your Territory or (ii) operate or grant a franchise for the operation of Tom N Toms Coffeehouses to be located within Your Territory. However, we have the right to terminate this exclusivity if you are not in full compliance with all of the terms and conditions of the Franchise Agreement.

7. We determine the boundaries of Your Territory after we approve your franchise location. We first determine whether the approved location qualifies as Business Zone, and then present you the proposed boundaries of Your Territory based on that decision. Relocation of your Coffeehouse requires our prior written approval.

### **B. Exceptions and Reservations**

The territorial rights we grant you for your Tom N Toms Coffeehouse are exclusive in nature as described above for the Franchise Agreement and Area Development Agreement subject to these exceptions and reservations. We and our affiliates retain all rights with respect to Tom N Toms Coffeehouses, the Proprietary Marks, and any goods and services anywhere, including:

1. Pre-packaged menu items under the Marks or other names sold to independent restaurants, convenience stores, grocery stores, specialty food stores, and department stores which sell beverages or related food items in Your Territory. This means, for example, we may prepare and sell on the third-party's premises freshly-prepared, beverage and food items under the Tom N Toms name or other names; we may also sell from these locations specialized beverage and food items, or bottled or packaged under the Tom N Toms label or other labels.

2. Menu items sold at Tom N Toms Coffeehouses, or operate (or permit others to operate) Tom N Toms Coffeehouses or coffeehouses under

other names which predominantly serve similar menu items at, or in, any airport, rail or bus terminal, stadium, amusement park, public park, theater, military base, hospital or health care facility, educational facility, high density office location or other mass gathering place even if located, entirely or partially, in your territory.

3. Menu items under the Marks or under other names from mobile units or carts, kiosks, vending machines, or other mobile or stationery devices which occupy less than 100 square feet and are in your territory.

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

5. We may engage or let others engage in the above activities in your territory without paying you any compensation or any other consideration. We will use reasonable efforts to try and resolve conflicts between franchisees regarding territorial rights. At this time we have no formal grievance procedure.

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

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

### **C. Additional Disclosures re Territory**

1. The Franchise Agreement lets you engage only in retail transactions of authorized goods and services to customers for their own

use and for their own consumption at your Tom N Toms Coffeehouse. You may not engage in wholesale sales without our prior written consent. "Wholesale sales" includes the sale or distribution of merchandise or products to a third party for resale, retail sale or other method of distribution. You may not engage in transactions with customers that do not take place on the premises of your Tom N Toms Coffeehouse.

2. Unless we consent in writing, you do not receive the right to acquire additional franchises within the territory we assign to your Tom N Toms Coffeehouse. Your franchise rights are not contingent on achieving any minimum sales level or other sales or market penetration contingency.

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

### **ITEM 13 TRADEMARKS**

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

| <b>TRADEMARK</b>                                                                    | <b>STATUS</b> | <b>REGISTRATION<br/>DATE</b> | <b>REGISTRATION<br/>NUMBER</b> |
|-------------------------------------------------------------------------------------|---------------|------------------------------|--------------------------------|
|  | REGISTERED    | Nov. 11, 2011                | 3530315                        |
| TOM N TOMS                                                                          | REGISTERED    | Jan. 10, 2012                | 4082449                        |
| TOM N TOMS COFFEE                                                                   | REGISTERED    | Mar. 13, 2012                | 4111818                        |
|  | REGISTERED    | Mar. 19, 2013                | 4305946                        |
| TOM N TOMS COFFEE                                                                   | REGISTERED    | Mar. 19, 2013                | 4305947                        |

2. Do Kyun Kim, the founder and majority shareholder of Tom N Toms Holdings Co., Ltd., an affiliated company of ours, is the

registered owner for all of the marks identified above and has granted us the exclusive license to use and license the above trademarks in the continent of North America, including but not limited to United States, and we in turn will grant you a non-exclusive right to use them as well as other trademarks, service marks, trade names and commercial symbols we may authorize in the future (collectively, the "Marks").

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

4. There are currently no effective material determinations by the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court, or any pending infringement, opposition or cancellation proceeding, or any pending material litigation, involving the Marks. There are currently no agreements in effect that significantly limit our rights to use or license the use of any Marks in any manner material to the franchise. There are no superior prior rights or infringing uses actually known to us that could materially affect your use of the Marks.

5. We are not obligated to protect you against infringement or unfair competition claims arising out of your use of the Marks or to participate in your defense or indemnify you. We reserve the right to control any litigation related to the Marks, and we have the sole right to decide to pursue or settle any infringement actions related to the Marks. You must notify us promptly of any infringement or unauthorized use of the Marks that you may become aware. If we determine that a trademark infringement action requires changes or substitutions to the Marks, you must make the changes or substitutions at your own expense.

#### **ITEM 14**

##### **PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

1. There are no patents or copyrights currently registered that are material to the franchise.

2. Our Manual, other manuals, training material, merchandise

and vendor lists and updates, action plans, and other directives contain material which we consider to be trade secrets. We claim trade secret and copyright protection for these manuals and materials although we have not filed any corresponding applications concerning them. You have to follow our direction in protecting the manuals and other trade secret material from unauthorized disclosure. You must use our proprietary materials only as we direct.

3. We can require your managers and supervisors to sign a confidentiality agreement in which they promise to keep all of our proprietary information confidential and to follow our directions regarding its use.

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

1. If you are an individual, you must devote full time and attention to supervising all administrative and operational activities of your franchised business at the franchise location.

2. If a legal entity owns the franchise rights, like a corporation, partnership or limited liability company, the person who owns a controlling interest in the entity's equity or voting rights, or a general partner, must devote full time and attention to franchise activities.

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

4. You must staff your Tom N Toms Coffeehouse with at least 1 "Approved Manager." An "Approved Manager is a full-time employee with management responsibilities who has successfully completed the manager training segment of the initial training program and any mandatory supplemental management classes. You (or the person who owns a controlling interest in equity or voting interests of an entity, or the general partner of a partnership, which owns the franchise) may be an Approved Manager provided you devote full time and attention to your franchise business. You must hire and train all your employees. You may also send your employees to our training programs.

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

1. You must operate your Tom N Toms Coffeehouse in accordance with the System standards (including required products and services).

We have the right, without limitation, to change the types of products and services that you are authorized to sell at our sole discretion.

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

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

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

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

#### **ITEM 17**

#### **RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

#### **THE FRANCHISE RELATIONSHIP**

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

# FRANCHISE AGREEMENT

| Provision                                           | Article in Franchise Agreement | Summary                                                                                                                                                                                                                                                                                             |
|-----------------------------------------------------|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. Term of the franchise                            | IV                             | 10 years                                                                                                                                                                                                                                                                                            |
| b. Renewal or extension of the term                 | IV                             | One additional term of 10 years                                                                                                                                                                                                                                                                     |
| c. Requirements for you to renew or extend          | IV                             | You have been in substantial compliance with agreement, pay renewal fee. You may have to remodel the Outlet, at your expense, and sign a Franchise Agreement in effect at the time of renewal which may contain materially different terms and conditions than the agreement you signed originally. |
| d. Termination by you                               | None                           | The Franchise Agreement does not provide for this. But you may seek to terminate on any grounds available to you under applicable law.                                                                                                                                                              |
| e. Termination by us without cause                  | None                           |                                                                                                                                                                                                                                                                                                     |
| f. Termination by us with cause                     | XVII                           | We can terminate only if you commit any one of several listed violations                                                                                                                                                                                                                            |
| g. "Cause" defined - defaults which can be cured    | XVII                           | 30 days for operations defaults, 30 days for monetary defaults, 24 hours for health code violations                                                                                                                                                                                                 |
| h. "Cause" defined - defaults which cannot be cured | XVII                           | Conviction of a felony, abandonment, unapproved transfers, bankruptcy, assignment for benefit of creditors, repeated violations                                                                                                                                                                     |

| <b>Provision</b>                                              | <b>Article in Franchise Agreement</b> | <b>Summary</b>                                                                                                                                                                                                 |
|---------------------------------------------------------------|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| i. Your obligations on termination/non-renewal                | XVIII                                 | Pay outstanding amounts, de-identification, return of confidential information and telephone numbers (see also below)                                                                                          |
| j. Assignment of contract by us                               | XX                                    | No restriction on our right to assign. However, no assignment will be made except to an assignee who, in our good faith judgment is willing and able to assume our obligations under the Franchise Agreement   |
| k. "Transfer" by you - definition                             | XX                                    | Includes transfer of contract of assets or any ownership change                                                                                                                                                |
| l. Our approval of transfer by you                            | XX                                    | We have the right to approve all transfers, our consent not to be unreasonably withheld                                                                                                                        |
| m. Conditions for our approval of transfer                    | XX                                    | Transferee qualifies, all amounts due are paid in full, transferee completes training, the greater of Transfer Fee of \$10,000 or 50% of then-current Initial Franchise Fee paid, then-current contract signed |
| n. Our right of first refusal to acquire your business        | XX                                    | We can match any offer                                                                                                                                                                                         |
| o. Our option to purchase your business                       | XX                                    | We can buy the business on termination or non-renewal for the formula price described in Article XX                                                                                                            |
| p. Your death or disability                                   | XX and XXI                            | Franchise must be assigned to approved buyer within 12 months or transferred to an heir or representative                                                                                                      |
| q. Non-competition covenants during the term of the franchise | XXIV                                  | Can't divert business or operate a competing business anywhere                                                                                                                                                 |

| <b>Provision</b>                                                          | <b>Article in Franchise Agreement</b> | <b>Summary</b>                                                                                                                                                                                                       |
|---------------------------------------------------------------------------|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| r. Non-competition covenants after the franchise is terminated or expires | XXIV                                  | No competing business for two years, within 10 miles of any other Outlet                                                                                                                                             |
| s. Modification of the agreement                                          | XXXII                                 | No modifications generally but Operations Manual subject to change. Revisions to the Operations Manual will not unreasonably affect your obligations, including economic requirements, under the Franchise Agreement |
| t. Integration/merger clause                                              | XXXII                                 | Only the terms of the Franchise Agreement are binding (subject to state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.                     |
| u. Dispute resolution by arbitration or mediation                         | XXX                                   | Except for certain claims, all disputes must be arbitrated in California (subject to state law)                                                                                                                      |
| v. Choice of forum                                                        | XXX                                   | Arbitration in California (subject to state law)                                                                                                                                                                     |
| w. Choice of law                                                          | XXIX                                  | California law applies (subject to state law)                                                                                                                                                                        |

#### **AREA DEVELOPMENT AGREEMENT**

| <b>Provision</b>                          | <b>Section in Area Development Agreement</b> | <b>Summary</b>                                                                                  |
|-------------------------------------------|----------------------------------------------|-------------------------------------------------------------------------------------------------|
| a. Term of the Area Development Agreement | VI                                           | Length of the Development Schedule, which can be as short as three years or as long as 20 years |

| <b>Provision</b>                                    | <b>Section in Area Development Agreement</b> | <b>Summary</b>                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------------|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| b. Renewal or extension of the term                 | V                                            | After all Outlets have been developed, we will negotiate in good faith another Area Development Agreement                                                                                                                                                                                                                                                                                   |
| c. Requirements for you to renew or extend          | V                                            | There are none                                                                                                                                                                                                                                                                                                                                                                              |
| d. Termination by you                               | None                                         | The Agreement does not provide for this. But you may seek to terminate on any grounds available to you at law                                                                                                                                                                                                                                                                               |
| e. Termination by us without cause                  | None                                         |                                                                                                                                                                                                                                                                                                                                                                                             |
| f. Termination by us with cause                     | IX                                           | We can terminate if you commit any one of several listed violations, which include failure to meet the development schedule, unauthorized use of the Proprietary Marks, sale of competing products, failure to make required payments, illegal assignments, making of material misrepresentations, failure to obtain approval for a site, any other breach of the agreement or a bankruptcy |
| g. "Cause" defined - defaults which can be cured    | IX                                           | These are listed in this Section                                                                                                                                                                                                                                                                                                                                                            |
| h. "Cause" defined - defaults which cannot be cured | IX                                           | These are also listed in this Section                                                                                                                                                                                                                                                                                                                                                       |
| i. Your obligations on termination/non-renewal      | X                                            | Stop selecting sites, can't open Outlet                                                                                                                                                                                                                                                                                                                                                     |

| <b>Provision</b>                                              | <b>Section in Area Development Agreement</b> | <b>Summary</b>                                                                                                                                                                                                                                                                          |
|---------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| j. Assignment of contract by us                               | XI                                           | No restriction on our right to assign. However, no assignment will be made except to an assignee who, in our good faith judgment, is willing and able to assume our obligations under the Area Development Agreement                                                                    |
| k. "Transfer" by you - definition                             | XI                                           | Includes transfer of any interest in the Area Development Agreement                                                                                                                                                                                                                     |
| l. Our approval of transfer by you                            | XI                                           | We have the right to approve all transfers, our consent not to be unreasonably withheld                                                                                                                                                                                                 |
| m. Conditions for our approval of transfer                    | XI                                           | Conditions for transfer include not being in default, all debts are paid, the buyer meets our current criteria for new area developers, execution of a general release (where legal), payment of 25% transfer fee (25% of development fee), buyer personally guarantees all obligations |
| n. Our right of first refusal to acquire your business        | XI                                           | We have the right to match the offer                                                                                                                                                                                                                                                    |
| o. Our option to purchase your business                       | None                                         |                                                                                                                                                                                                                                                                                         |
| p. Your death or disability                                   | XI                                           | Option passes to estate                                                                                                                                                                                                                                                                 |
| q. Non-competition covenants during the term of the franchise | XII                                          | Can't divert business or operate a competing business anywhere                                                                                                                                                                                                                          |

| <b>Provision</b>                                                          | <b>Section in Area Development Agreement</b> | <b>Summary</b>                                                                                                                                                                                                              |
|---------------------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| r. Non-competition covenants after the franchise is terminated or expires | XII                                          | No competing business for two years and within a 10 mile radius of any Outlet                                                                                                                                               |
| s. Modification of the agreement                                          | XVIII                                        | No modifications except by mutual agreement of the parties. Revisions to the Area Development Agreement will not unreasonably affect your obligations, including economic requirements under the Area Development Agreement |
| t. Integration/merger clause                                              | XVIII                                        | Only the terms of the Franchise Agreement are binding (subject to state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.                            |
| u. Dispute resolution by arbitration or mediation                         | XIX                                          | Except for certain claims, all disputes must be arbitrated in California (subject to state law)                                                                                                                             |
| v. Choice of forum                                                        | XIX                                          | Arbitration in California (subject to state law)                                                                                                                                                                            |
| w. Choice of law                                                          | XVIII                                        | California (subject to state law)                                                                                                                                                                                           |

**ITEM 1**  
**8**  
**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 actual or potential financial performance of its franchised and/or franchiser-owned outlets, if there is a reasonable basis for the information, and the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned, affiliate-owned or franchised Tom N Toms Coffeehouses. We do not authorize our employees or representatives to make any such representations either orally or in writing. But if you are purchasing an existing Tom N Toms Coffeehouse from us or an affiliate of ours, we may provide you the actual records of that Tom N Toms Coffeehouse. If you receive any other financial performance information or projections of your future income, you should report it to our management by contacting Mr. Cheolku Lee, President of Tom N Toms Franchise, LLC, 3435 Wilshire Blvd., Suite 2090, Los Angeles, CA 90010, (213) 908-6829, the Federal Trade Commission, and the appropriate state regulatory agencies.

**ITEM 20**  
**OUTLETS AND FRANCHISEE INFORMATION**

**Item 20(1) Table -**  
**Systemwide Outlet Summary**  
**For years 2017 to 2019**

| Outlet Type                       | Year | Outlets at<br>the Start of<br>the Year | Outlets at<br>the End of<br>the Year | Net Change |
|-----------------------------------|------|----------------------------------------|--------------------------------------|------------|
| Franchised                        | 2017 | 1                                      | 2                                    | +1         |
|                                   | 2018 | 2                                      | 4                                    | +2         |
|                                   | 2019 | 4                                      | 5                                    | +1         |
| Company or<br>Affiliate-<br>Owned | 2017 | 6                                      | 6                                    | 0          |
|                                   | 2018 | 6                                      | 4                                    | -2         |
|                                   | 2019 | 4                                      | 2                                    | -2         |
| Total                             | 2017 | 7                                      | 8                                    | +1         |
|                                   | 2018 | 8                                      | 8                                    | 0          |
|                                   | 2019 | 8                                      | 7                                    | -1         |

**Item 20(2) Table -  
Transfers of Outlets from Franchisees to New Owners (other than the  
Franchisor)  
For years 2017 to 2019**

| State      | Year | Number of Transfers |
|------------|------|---------------------|
| California | 2017 | 0                   |
|            | 2018 | 0                   |
|            | 2019 | 0                   |
| Total      | 2017 | 0                   |
|            | 2018 | 0                   |
|            | 2019 | 0                   |

**Item 20(3) Table -  
Status of Franchised Outlets  
For years 2017 to 2019**

| State | Year | Outlets at Start of Year | Outlet Opened | Termination | Non-Renewal | Re-acquired by Franchisor | Ceased Operations- Other Reasons | Outlet at the end of the Year |
|-------|------|--------------------------|---------------|-------------|-------------|---------------------------|----------------------------------|-------------------------------|
| CA    | 2017 | 1                        | 1             | 0           | 0           | 0                         | 0                                | 2                             |
|       | 2018 | 2                        | 1             | 0           | 0           | 0                         | 0                                | 3                             |
|       | 2019 | 3                        | 0             | 0           | 0           | 0                         | 0                                | 3                             |
| TX    | 2017 | 0                        | 0             | 0           | 0           | 0                         | 0                                | 0                             |
|       | 2018 | 0                        | 1             | 0           | 0           | 0                         | 0                                | 1                             |
|       | 2019 | 1                        | 1             | 0           | 0           | 0                         | 0                                | 2                             |
| Total | 2017 | 1                        | 1             | 0           | 0           | 0                         | 0                                | 2                             |
|       | 2018 | 2                        | 2             | 0           | 0           | 0                         | 0                                | 4                             |
|       | 2019 | 4                        | 1             | 0           | 0           | 0                         | 0                                | 5                             |

**Item 20(4) Table -  
Status of Company or Affiliate Owned Outlets  
For years 2017 to 2019**

| State  | Year | Outlets<br>at<br>Start<br>of Year | Outlets<br>Opened | Outlets<br>Reacquired<br>from<br>Franchisee | Outlets<br>Closed | Outlets<br>Sold to<br>Franchisee | Outlets<br>at the<br>end of<br>the<br>Year |
|--------|------|-----------------------------------|-------------------|---------------------------------------------|-------------------|----------------------------------|--------------------------------------------|
| CA     | 2017 | 6                                 | 1                 | 0                                           | 0                 | 1                                | 6                                          |
|        | 2018 | 6                                 | 0                 | 0                                           | 2                 | 0                                | 4                                          |
|        | 2019 | 4                                 | 0                 | 0                                           | 2                 | 0                                | 2                                          |
| Totals | 2017 | 6                                 | 1                 | 0                                           | 0                 | 1                                | 6                                          |
|        | 2018 | 6                                 | 0                 | 0                                           | 2                 | 0                                | 4                                          |
|        | 2019 | 4                                 | 0                 | 0                                           | 2                 | 0                                | 2                                          |

**Item 20(5) Table -  
Projected Openings As of Dec. 31, 2020**

| State      | Franchise<br>Agreements Signed<br>But Outlet Not<br>Opened | Projected New<br>Franchised Outlet<br>In The Next<br>Fiscal Year | Projected New<br>Company-Owned<br>Outlets In The<br>Next Fiscal<br>Year |
|------------|------------------------------------------------------------|------------------------------------------------------------------|-------------------------------------------------------------------------|
| California | 1                                                          | 1                                                                | 0                                                                       |
| TX         | 1                                                          | 1                                                                | 0                                                                       |
| VA         | 1                                                          | 0                                                                | 0                                                                       |
| Total      | 3                                                          | 2                                                                | 0                                                                       |

If you buy Tom N Toms franchise, your contact information may be disclosed to other buyers when you leave the franchise system. Because Tom N Toms Coffeehouse franchise has yet to be offered, there is no available list of current franchisees or any franchisee who had a Coffeehouse terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business during the most recently completed fiscal year or who has not communicated with the franchisor within 10 weeks of the disclosure document issuance date.

In some instances, current and former franchisees sign provisions

restricting their ability to speak openly about their experience with Tom N Toms franchise. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you. During our last 3 fiscal years, we have not signed any confidentiality clauses with current or former franchisees which restrict them from speaking openly with you about their experience with us.

**ITEM 21**  
**FINANCIAL STATEMENTS**

Attached to this Disclosure Document as Exhibit H is our audited financial statements as of December 31, 2017, December 31, 2018 and December 31, 2019. Also attached is our compilation report for the period ending on May 31, 2020. Our fiscal year end is December 31<sup>st</sup>.

**ITEM 22**  
**CONTRACTS**

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

- EXHIBIT C-** Franchise Agreement
- EXHIBIT D-** Area Development Agreement

**ITEM 23**  
**RECEIPT**

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

## EXHIBIT A

### STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS

#### CALIFORNIA

Department of Business Oversight  
Suite 750  
320 West 4th Street  
Los Angeles, CA 90013  
(213) 738-2741  
Toll Free No.: 1 866 275 2677

Agent: California Commissioner of  
Business Oversight

#### HAWAII

Securities Examiner  
1010 Richards Street  
Honolulu, Hawaii 96813  
(808) 548-2021

Agent: Director of Hawaii  
Department of Commerce and  
Consumer Affairs

#### ILLINOIS

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

Agent: Illinois Attorney General

#### MARYLAND

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

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

#### MICHIGAN

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

Agent: Michigan Department of  
Commerce Corporations and  
Securities Bureau

#### MINNESOTA

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

Agent: Minnesota Commissioner of  
Commerce

INDIANA

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

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

NEW YORK

Bureau of Investor Protection and  
Securities  
New York State Department of Law  
23rd Floor  
120 Broadway  
New York, New York 10271  
(212) 416-8211

Agent: New York Secretary of  
State

NORTH DAKOTA

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

Agent: North Dakota Securities  
Commissioner

OREGON

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

Agent: Director of Oregon  
Department of Insurance and  
Finance

NEBRASKA

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

SOUTH DAKOTA

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

Agent: Director of South Dakota  
Division Securities

TEXAS

Secretary of State  
P.O. Box 12887  
Austin, Texas 78711

VIRGINIA

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

Agent: Clerk of the State  
Corporation Commission

RHODE ISLAND

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

Agent: Director of Rhode Island  
Department of Business Regulation

WISCONSIN

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

Agent: Wisconsin Commissioner of  
Securities

WASHINGTON

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

Agent: Securities Administrator,  
Director of Department of  
Financial Institutions

**EXHIBIT B**

**STATE SPECIFIC ADDENDUM**

## California

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF EACH PROPOSED AGREEMENT RELATING TO THE GRANT OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

Neither the franchisor nor any person identified in Item 2 of this Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling the person from membership in the association or exchange.

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

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

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

Under both the California Franchise Relations Act and the Franchise Investment Law, a provision in a Franchise Agreement that requires you to waive your rights under either or both of these laws is void. We will not request that you waive your rights under California franchise laws.

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

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

The franchise agreement and development agreement

requires binding arbitration. The arbitration will occur at Los Angeles, and the arbitrators have the discretion to assess the costs of arbitration, including reasonable arbitrators' and attorneys' fees in proportions as the arbitrators may determine. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

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

OUR WEBSITE ADDRESS IS [HTTP://WWW.TOMNTOMS.COM](http://www.tomntoms.com). OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT [WWW.DB0.CA.GOV](http://www.dboc.ca.gov).

## Illinois

Many states have status concerning the relationship between franchisor and franchisee. These statutes deal with such matters as renewal and termination of franchises. Provisions of this sort will prevail over inconsistent terms in a franchise agreement. Illinois has such a statute (915 ILCS 705/19 and 705/20).

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

The Franchise Agreement includes a choice of law clause designating another state's law as the governing law. Under Illinois law, a Franchise Agreement may not provide for a choice of law of any state other than Illinois. Accordingly, Item 17 w. is amended to state

"none" under the heading for "Summary." The Franchise Agreement is amended to omit Section XXV.

The Franchise Agreement requires franchisee to sign a release of claims as a condition for transfer or renewal of the franchise. Under the law of Illinois, any provision that purports to bind a person acquiring a franchise to waive compliance with the franchise disclosure law of Illinois is void. Accordingly, insofar as the Franchise Agreement requires franchisee to waive franchisee's rights under the Illinois franchise law, these requirements are deleted from the Franchise Agreement. This provision will not prevent the franchisor from requiring franchisee to sign a release of claims as part of a negotiated settlement of a dispute.

### **Maryland**

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

The Franchise Agreement says that franchisor may require franchisee to sign a release of claims, other than claims that may not be waived in advance under applicable law, as a condition of renewal or transfer of your franchise. Under Maryland law, the release will not apply to any liability under the Maryland Franchise Registration and Disclosure law.

Under the Franchise Agreement, franchisee must disclaim the occurrence and/or acknowledge the non-occurrence of acts that might constitute a violation of the Maryland franchise law. These representations are not intended to nor do they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the franchise is granted.

### **Michigan**

**THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE**

**DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU:**

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

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

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

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

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

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

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

(i) Failure of the proposed transferee to meet the franchisor's then-current reasonable qualifications or standards.

(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

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

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

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

(i) A provision which permits the franchisor to directly or indirectly convey, assign or otherwise transfer its obligations to fulfill contractual obligations to the

franchisee unless provision has been made for providing the required contractual services.

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

A FRANCHISE SHALL NOT BE SOLD IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, AT LEAST TEN (10) BUSINESS DAYS BEFORE THE EXECUTION BY THE PROSPECTIVE FRANCHISEE OF ANY BINDING FRANCHISE OR OTHER AGREEMENT OR AT LEAST TEN (10) BUSINESS DAYS BEFORE THE RECEIPT OF ANY CONSIDERATION, WHICHEVER OCCURS FIRST, A COPY OF THE DISCLOSURE STATEMENT DESCRIBED IN THIS STATUTE.

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000, franchisee has the right to request an escrow arrangement.

Any questions regarding this notice should be directed to:

Consumer Protection Division  
Attn: Marilyn McEwen  
670 Law Building  
Lansing, Michigan 48913  
(517) 373-7117

### **Minnesota**

The Franchise Agreement requires binding arbitration. The arbitration will occur in a state other than Minnesota, with costs being borne by the non-prevailing party. Under Minnesota Statutes § 80C.21 and Minnesota Rule Part 2860.4400J, this provision may not in any way invalidate or reduce any of the franchise owner's rights that are listed in Chapter 80C of the Minnesota Statutes.

The Franchise Agreement requires application of the laws of a state other than Minnesota. Under Minnesota Statutes § 80C.21 and Minnesota Rule Part 2860.4400J, this provision may not in any way invalidate or reduce any of the franchise owner's rights that are listed in Chapter 80C of the Minnesota Statutes.

With respect to franchises governed by Minnesota law, the franchisor will comply with Minn. Stat. Sec. 80C. 14,

Subds. 3, 4, and 5 which require, except in certain specified cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice of non-renewal of the Franchise Agreement.

The Franchise Agreement requires you to sign a release of claims as a condition of renewing or transferring a franchise. Minnesota Rule Part 2860.4400J prohibits franchisor from requiring franchisee to sign a release of claims arising under the Minnesota Franchise Law. Therefore, any release we require you to sign will exclude claims arising under the Minnesota Franchise Law.

The Franchise Agreement provides that franchisor is entitled to a temporary injunction or decree of specific performance. The Franchise Agreement is amended to provide that we are entitled to seek a temporary injunction or decree of specific performance if we can demonstrate to a court of competent jurisdiction that there is substantial likelihood of franchisee's breach or threatened breach of any of the terms of the Franchise Agreement, not that franchisor is necessarily entitled to obtain this relief.

Under Minnesota law, any claim arising under §80C may be brought within three years after the cause of action accrues. The Franchise Agreement is amended to provide for a three-year period within which to bring any Minnesota claims.

### **New York**

THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH FRANCHISEE ABOUT ITEMS COVERED IN THIS PROSPECTUS. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS PROSPECTUS.

Except as stated in Item 3 of this Disclosure Document, neither the franchisor, its predecessor or predecessors nor any person or sales agent identified in Item 2 of this Disclosure Document: (i) has pending any administrative, criminal, or material civil action (or a significant number of civil actions irrespective of materiality) alleging a felony, violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive

practices, misappropriation of property or comparable allegations; (ii) has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10-year period immediately preceding the application for registration, has been convicted of a misdemeanor or pleaded nolo contendere to a misdemeanor charge or been held liable in a civil action by final judgment or been the subject of a material complaint or other legal proceeding if such misdemeanor conviction or charge or civil action, complaint or other legal proceeding involved violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations; (iii) is subject to any injunctive or restrictive order or decree relating to franchises or under Federal or State franchise, securities, antitrust, trade regulation or trade practice law as a result of a concluded or pending action or proceeding brought by a public agency.

Neither the franchisor, its affiliate, its predecessor, officers, nor general partner during the 10-year period immediately before the date of the Disclosure Document: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after the officer or general partner of the franchisor held this position in the company or partnership.

The introduction to Item 17 is amended to read as follows:

THIS TABLE LISTS CERTAIN IMPORTANT PROVISIONS OF THE FRANCHISE AND RELATED AGREEMENTS PERTAINING TO RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION. YOU SHOULD READ THESE PROVISIONS IN THE AGREEMENTS ATTACHED TO THIS DISCLOSURE DOCUMENT.

The Summary column of Item 17d is amended to read:  
"You may terminate upon any grounds permitted by law."

The Summary column of Item 17j is amended to read: "We may assign only to a financially responsible assignee that we reasonably believe is capable of performing its obligations under the franchise agreement and which expressly assumes these obligations in writing."

The Summary column in Item 17w is amended to add the following: "The foregoing choice of law should not be considered a waiver of any right conferred upon you by the General Business Law of the State of New York, Article 33."

### **North Dakota**

In North Dakota, the Disclosure Document is amended as follows to conform to North Dakota law:

Item 17c is revised to omit any requirement that a general release be signed as a condition of renewal.

Item 17r is amended to add the following: "To the extent that covenants not to compete apply to periods after the term of the franchise, they are generally considered unenforceable in the State of North Dakota."

Item 17u is amended to omit any reference to the location or mediation or arbitration.

Item 17w is amended to state "None."

### **Rhode Island**

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

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

To the extent required by § 19-28.1-14 of the Rhode Island Franchise Investment Act, the Franchise Agreement will be governed by the laws of the State of Rhode Island.

## **South Dakota**

The Franchise Agreement includes a covenant not to compete after termination of the franchise. Covenants not to compete upon termination or expiration of the Franchise Agreement are generally unenforceable in the State of South Dakota, except in certain instances provided by law. The Franchise Agreement provides for arbitration in a state other than South Dakota. Under South Dakota law, arbitration must be conducted at a mutually agreed upon site in accordance with §11 of the Commercial Arbitration Rules of the American Arbitration Association.

The Franchise Agreement designates the law of a state other than South Dakota as the governing law, except that trademark issues are to be under the Landham Act. Franchise registration, employment, covenants not to compete, and other matters of local concern will be governed by the laws of the State of South Dakota, but contractual and all other matters will be subject to application, construction, enforcement and interpretation under the governing law specified by the Franchise Agreement.

Under South Dakota law, any provision in a Franchise Agreement which designates jurisdiction or venue or requires the franchisee to agree to jurisdiction or venue outside South Dakota is void with respect to any cause of action which is governed by the law of South Dakota.

Under South Dakota law, termination provisions covering breach of the Franchise Agreement, failure to meet performance and quality standards, and failure to make royalty payments contained in the Disclosure Document and Franchise Agreement must afford a franchisee thirty (30) days written notice with an opportunity to cure the default prior to termination. Under SDL 37-5A-86, any condition, stipulation or provision purporting to waive compliance with any provision of this chapter, or any rule or order is avoid.

An acknowledgment, provision, disclaimer or integration clause or a provision having a similar effect in a Franchise Agreement does not negate or act to remove from judicial review any statement, misrepresentation or action that would violate the South Dakota franchise law or a rule or order under the South Dakota franchise law.

## **Washington**

The State of Washington has a statute, RCW 19.100.180, that may supersede the Franchise Agreement in your relationship with the franchisor, including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the franchisor, including the areas of termination and renewal of the franchise.

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

The Franchise Agreement requires application of the laws of a state other than Washington. If there is a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chap. 19.100 RCW, will prevail.

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

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

**EXHIBIT C**

**TOM N TOMS COFFEE  
FRANCHISE AGREEMENT**

**TOM N TOMS COFFEE**

**FRANCHISE AGREEMENT**

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**TOM N TOMS COFFEEHOUSE**

**FRANCHISE AGREEMENT**

**THIS FRANCHISE AGREEMENT**, ("Agreement") is made and entered into the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_, between Tom N Toms Franchise, LLC, a California limited liability company whose principal address is 3435 Wilshire Blvd., Suite 2090, Los Angeles, CA 90020 ("Franchisor" or "Company"), and \_\_\_\_\_ residing at \_\_\_\_\_ ("Franchisee").

**RECITALS:**

A. Franchisor franchises certain the operation of a coffeehouse, known as "Tom N Toms", featuring premium coffee products and complementary food and beverages ("Menu Items" or "Products") and provide carry-out and on-premises dining services ("Coffeehouse"). Franchisor's Coffeehouses are operated under certain trademarks, service marks, logos and other commercial symbols, including without limitation "Tom N Toms" and "Tom N Toms Coffee" (collectively "Marks"), and pursuant to certain confidential information and trade secrets. Menu Items are prepared according to proprietary recipes and procedures and use high quality ingredients, including without limitation, high quality and specially roasted and blended coffee beans ("Trade Secret Food Products"). Tom N Toms Coffeehouses are operated with uniform formats, designs, systems, methods, specifications, standards and procedures, all of which may be improved, further developed or otherwise modified from time to time by Franchisor ("System").

B. Franchisor grants to persons who meet Franchisor's qualifications and who are willing to undertake the investment and effort to establish and develop a Tom N Toms Coffeehouse, a franchise to own and operate such a Coffeehouse, offering the Products and services approved by Franchisor and utilizing Franchisor's formats, designs, methods, specifications, standards, operating procedures and the Marks.

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

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

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

F. Franchisor expressly disclaims the making of, and Franchisee acknowledges that Franchisee has not received or relied upon, any warranty or guaranty, express or implied, as to the revenues, profits or success of the business venture contemplated by this Agreement. Franchisee: (i) acknowledges that Franchisee has not received or relied on any representations about the franchise by Franchisor, or its officers, directors, employees or agents, that are contrary to the statements made in Franchisor's FDD or to the terms and conditions contained in this Agreement; and (ii) represents to Franchisor, as an inducement to Franchisor to enter into this Agreement, that Franchisee has made no misrepresentations in obtaining the franchise.

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

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

## **ARTICLE I**

### **GRANT OF FRANCHISE AND EXCLUSIVE TERRITORY**

1.1 Subject to the terms and conditions contained in this Agreement, Franchisor grants to Franchisee the right to own and operate a Tom N Toms Coffeehouse at, and only at, the premises approved by Franchisor in accordance with the provisions of this Agreement (the "Coffeehouse"), and to use the Marks in the operation of the Coffeehouse.

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

1.3 The franchise location and territory set forth in Exhibit "A" may not be altered or changed by Franchisee without Franchisor's prior written approval. In the event there is such an approval, the

new franchise location shall become the "Franchise Location" under the terms of this Agreement.

Exclusive Territory:

1.4 Franchisee shall have an exclusive territory (the "Territory") that will encompass a specific area which is determined based on whether or not Franchise Location is located in the "Business Zone." The Business Zone refers to an area concentrated with high-density commercial businesses designated by Franchisor in its reasonable discretion, taking into consideration such demographic factors as population density and size, ethnic make-up, persons per household, income level, residential/commercial mix, and population age; traffic patterns, parking, and access issues; neighboring business mix; rent and leasing terms; and presence of any other nearby Tom N Toms Coffeehouses. If Franchise Location is within the Business Zone, Franchisee's Territory shall measure an area within two-tenths (0.2) mile from Franchise Location. If Franchise Location is not within a Business Zone, Franchisee's Territory shall be an area measuring one-half (1/2) mile from Franchise Location. The specific boundaries of the Territory along with the corresponding map shall be placed in writing and incorporated into this Agreement.

1.5 Franchisor shall determine the boundaries of the Territory under this Agreement after Franchise Location is approved. Upon the approval of Franchise Location, Franchisor shall determine whether said the approved location qualifies as Business Zone, and thereafter provide Franchisee the proposed boundaries of the Territory.

1.6 If Franchisee refuses the Territory designated by Franchisor, the parties shall negotiate in good faith to identify mutually acceptable boundaries for Franchisee's Territory consistent with Franchisor's policies; provided, however, that if the parties cannot agree on such boundaries within thirty (30) days after Franchisee receives Franchisor's notice of site approval, the proposed site shall be deemed disapproved.

1.7 As long as Franchisee is not in default under this Agreement, Franchisor shall not operate, or grant others the right to operate, a Tom N Toms Coffeehouse in the Territory. However, nothing in or elsewhere in this Agreement prohibits Franchisor from engaging in the following activities in the Territory:

A. Selling or permitting others to sell any pre-packaged menu items under the Marks or other names, to independent restaurants, convenience stores, grocery stores, specialty food stores, and department stores selling beverage items located within the Territory.

B. Selling or permitting others to sell any menu items sold at Tom N Toms Coffeehouse, or operating (or granting others the right to operate) a Tom N Toms Coffeehouse, which is located at, or within, any airport, rail or bus terminal, stadium, amusement park,

public park, theater, military base, hospital or health care facility, educational facility, high density office location or other mass gathering place entirely or partially in the Territory.

C. Selling or permitting others to sell any menu items sold at Tom N Toms Coffeehouse, or pre-packaged items used to prepare any beverage items sold at Tom N Toms Coffeehouses, under the Marks or other names from mobile units or carts, kiosks, vending machines, or other mobile or stationery devices which occupy less than 100 feet and are in the Territory.

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

1.7 Franchisee acknowledges that Franchisor, entities related to Franchisor through common ownership, and each of their officers, directors, employees and agents, may engage in any and every activity, within or outside of the Territory, which is not expressly prohibited by this Agreement. Except for the restrictions stated in this Section, this Agreement does not limit Franchisor's right to use or license the Marks or the System, or to engage in, or license, any other type of business activity, whether similar to or different from the Tom N Toms System.

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

1.9 Franchisor, in its sole discretion, reserves the right to approve exceptions or deviations from the System. Franchisee acknowledges it has no right to object to variances granted to others and to claim against Franchisor for failing to enforce standards of the System against other Tom N Toms franchisees.

## **ARTICLE II**

### **DEVELOPMENT AND OPENING OF THE COFFEEHOUSE AND TERRITORY**

#### **Lease of Coffeehouse Premises:**

2.1 Franchisor shall have the right, in its sole discretion, to require:

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

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

C. That such lease contain substantially the following provisions:

1. "Anything contained in this lease to the contrary notwithstanding, Lessor agrees that without its consent, this lease and the right, title and interest of the Lessee hereunder may be assigned by the Lessee to Tom N Toms Franchise, LLC, or its designee."

2. "Lessee agrees that Lessor may, upon the written request of Tom N Toms Franchise, LLC, disclose to Tom N Toms Franchise, LLC all reports, information or data in Lessor's possession respecting sales made in, upon or from the leased premises."

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

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

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

#### Development of Coffeehouse:

2.4 Franchisor will furnish to Franchisee prototype or prototype plans and specifications for a Coffeehouse reflecting Franchisor's requirements for dimensions, exterior design, interior design and layout, image, building materials, fixtures, equipment, furniture, signs and decor.

2.5 Within one hundred eighty (180) days after obtaining possession of the premises of the Coffeehouse and having been furnished with the above-described plans and specifications, Franchisee will do or cause to be done the following:

A. Secure all financing required to fully develop the Coffeehouse;

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

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

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

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

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

#### Fixtures, Equipment, Furniture and Signs:

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

#### Coffeehouse Opening:

2.8 Franchisee will not open the Coffeehouse for business until:

A. Franchisor determines that the Coffeehouse has been constructed and equipped in accordance with approved plans and specifications;

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

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

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

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

2.9 Franchisee will use its best efforts to have the Coffeehouse ready to open for business within eight (8) months after

the date Franchisee's lease or sublease is executed. Final approval by Franchisor of the opening of the Coffeehouse shall be given in writing and shall be in Franchisor's reasonable discretion. Franchisee will open the Coffeehouse for business within ten (10) days after receipt of such written notice from Franchisor.

#### Relocation of Coffeehouse:

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

2.11 In the event of a relocation of the Coffeehouse, Franchisee shall promptly remove from the first Coffeehouse premises, and discontinue using for any purposes, any and all signs, fixtures, furniture, posters, furnishings, equipment, menus, advertising materials, stationery supplies, forms and other articles which display any of the Marks or any distinctive features or designs associated with Tom N Toms Coffeehouses. Furthermore, Franchisee shall, at Franchisee's expense, immediately make such changes, modifications or alterations as may be necessary to distinguish the first location clearly from its former appearance and from other Tom N Toms Coffeehouses and to prevent any possibility of confusion of the first location with a Tom N Toms Coffeehouse by the public (including, without limitation, removal of all distinctive physical and structural features identifying Tom N Toms Coffeehouses and removal of all distinctive signs and emblems). Franchisee shall, at Franchisee's expense, make such specific additional changes as Franchisor may reasonably request for this purpose. If Franchisee fails to initiate immediately or complete such alterations within such period of time as Franchisor deems appropriate, Franchisee agrees that Franchisor or its designated agents may enter the premises of the first location and adjacent areas at any time to make such alterations, at Franchisee's sole risk and expense, without responsibility for any actual or consequential damages to the property of Franchisee or others, and without liability for trespass or other tort or criminal act. Franchisee expressly acknowledges that Franchisee's failure to make such alterations will cause irreparable injury to Franchisor, and consents to entry, at Franchisee's expense, of an ex-parte order by a court of competent jurisdiction authorizing Franchisor or its agents to take such action, if Franchisor seeks such an order. Compliance with the foregoing shall be a condition subsequent to Franchisor's approval of any relocation request by Franchisee, and in the event complete de-identification of the first Coffeehouse premises is not

promptly and completely undertaken, Franchisor may then revoke its permission for relocation and declare a default under this Agreement pursuant to Article XVII below.

### **ARTICLE III** **PROPRIETARY MARKS AND GOODWILL**

3.1 When used in this Agreement, "Marks" mean the trademarks and service marks, including but not limited to "Tom N Toms" and "Tom N Toms Coffee", which are used to identify Tom N Toms Coffeehouses and to distinguish it from that of any other business, and the trademarks, service marks, trade names, logos and commercial symbols as may be designated by Franchisor from time to time for use in connection with the System.

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

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

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

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

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

3.7 If at any time, Franchisor in its sole discretion, decides to modify or discontinue use of any Mark and/or to adopt or use one or more additional or substitute proprietary marks, then Franchisee shall comply with any such instruction by Franchisor. In such event and at Franchisor's direction, Franchisee shall adopt, use and display only such new or modified Marks, and shall promptly discontinue the use and display of outmoded or superseded marks, at Franchisee's expense. Franchisee waives any claim arising from or relating to any proprietary mark change, modification or substitution. Franchisor will not be liable to Franchisee for any expenses, losses or damages sustained by Franchisee as a result of any proprietary mark addition, modification, substitution or discontinuation. Franchisee will not commence or join in any litigation or other proceeding against Franchisor for any of these expenses, losses or damages.

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

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

3.10 Franchisor shall undertake the defense or prosecution of any litigation concerning Franchisee that relates to any of

Franchisor's Marks or that, in Franchisor's judgment, may affect the goodwill of the System; and Franchisor may, in such circumstances, undertake any other action which it deems appropriate. Franchisor shall have sole and complete discretion in the conduct of any defense, prosecution or other action it chooses to undertake. Franchisee shall execute those documents and perform those acts, which in the opinion of Franchisor, are necessary for the defense or prosecution of the litigation or for such other action as Franchisor may undertake.

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

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

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

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

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

3.16 Franchisor shall indemnify Franchisee against, and reimburse Franchisee for, all damages for which Franchisee is held liable in any proceeding in which Franchisee's use of any Mark pursuant to and in compliance with this Agreement is held to constitute trademark infringement, unfair competition or dilution, and for all costs reasonably incurred by Franchisee in the defense of any such claim brought against Franchisee or in any such proceedings in

which he is named as a party, provided that Franchisee has timely notified Franchisor of such claim or proceedings, has otherwise complied with this Agreement, and has tendered complete control of the defense of such to Franchisor. If Franchisor defends such claim, Franchisor shall have no obligation to indemnify or reimburse Franchisee with respect to any fees or disbursements of any attorney retained by Franchisee.

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

#### **ARTICLE IV** **TERM AND RENEWAL**

4.1 Except as otherwise provided in this Agreement, the initial term of this franchise (the "Initial Term") shall be for ten (10) years from the date of execution of this Agreement.

4.2 Subject to the conditions specified in Section 4.3 below, Franchisee shall have the right to renew this Agreement for a period of ten (10) years from the date of the expiration of the Initial Term.

4.3 Franchisee's right of renewal pursuant to Section 4.2 above shall be subject to the following conditions precedent:

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

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

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

D. Franchisee shall have effected the improvements to Franchisee's Coffeehouse and its operations required by Franchisor pursuant to Section 4.4 below;

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

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

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

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

I. Franchisee shall remit to Franchisor a renewal fee equal to one-half (1/2) of the then-current Initial Franchise Fee in effect at the time of renewal.

4.4 Within three (3) months of the receipt of a notice to renew from Franchisee pursuant to Section 4.3 hereof, Franchisor shall complete a renewal report specifying the modifications and improvements and repairs, if any, required by Franchisor and which Franchisee must make to Franchisee's Coffeehouse which must be in conformity with the then existing standards, and specifications pertaining to Franchisee's Coffeehouse. The total costs of any modifications, improvements and repairs involving remodeling, decoration and structural changes required by Franchisor shall not exceed \$70,000.

4.5 Franchisor expressly reserves the right to deny Franchisee's renewal in the event that Franchisee abandons Franchisee's Coffeehouse and Franchisee ceases to operate and maintain Franchisee's Coffeehouse in accordance with the terms of this Agreement.

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

**ARTICLE V**  
**INITIAL AND CONTINUING FEES PAYABLE TO FRANCHISOR**

5.1 In consideration of the execution of this Agreement and Franchisor's granting to Franchisee the franchise covered hereby, Franchisee agrees to pay to Franchisor an Initial Franchise Fee of Thirty Thousand Dollars (\$30,000.00) (the "Initial Franchise Fee"), payable upon the execution of this Agreement, which sum shall be deemed fully earned by Franchisor upon receipt thereof and is non-refundable, except as may be set forth in this Agreement.

5.2 In consideration of this franchise granted by this Agreement, the services to be provided by Franchisor, the right to prepare and sell the Products to the general public, and for the use of the Marks during the Initial Term and any subsequent renewals, Franchisee shall pay to Franchisor, in addition to the Initial Franchise Fee, a royalty fee equal to 4.0% of the gross sales generated by, from, or through Franchisee's Coffeehouse ("Royalty Fee").

5.3 For the purposes of determining the royalties to be paid, "Gross Sales" shall mean the total selling price of all services and products and all income of every other kind and nature related to the Coffeehouse (including, without limitation, income related to catering and delivery activities, and any sales or orders of beverage/food products or preparation services provided from or related to the Coffeehouse), whether for cash or credit and regardless of collection in the case of credit. In the event of a cash shortage, the amount of Gross Sales shall be determined based on the records of the electronic cash register system and any cash shortage shall not be considered in the determination. Gross Sales shall not include the following:

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

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

C. Returns to shippers or manufacturers; and

D. Proceeds from isolated sales of trade fixtures not constituting any part of Franchisee's products and services offered

for resale at the Coffeehouse nor having any material effect upon the ongoing operation of the Coffeehouse required under this Agreement.

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

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

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

5.4 Royalty Fees are due and payable on the Wednesday of each week ("Payment Date"), relating to the week ending on the preceding Sunday. Franchisee shall remit Royalty Fees, Advertising Fees and any other monies owed to Franchisor under this Agreement via electronic funds transfer or other comparable means. Franchisee shall comply with the procedures established by Franchisor and/or to perform such acts and deliver and execute the Authorization to Honor Charges Drawn By and Payable To Tom N Toms Franchise, LLC including Checks and Electronic Transfers (Exhibit "H") and any other documents as may be necessary to assist in or accomplish such electronic method of payment.

In the event any electronic funds transfer is not honored by Franchisee's bank for any reason, Franchisee shall be responsible for that payment, plus a service charge applied by Franchisor and the bank, if any. Franchisee shall, at all times throughout the term of this Agreement, maintain a minimum balance of Five Thousand Dollars (\$5,000.00) in Franchisee's bank account against which such electronic funds transfers shall be drawn for the Coffeehouse operated under this Agreement.

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

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

5.7 Payment Security Deposit. To secure Franchisee's future payment obligations for equipment, products and/or materials that Franchisee purchases from Franchisor or Franchisor's affiliates as well as any other amounts due to Franchisor or Franchisor's affiliates, Franchisee is required to deposit \$10,000 with Franchisor on signing the lease. Franchisee acknowledges that Franchisor can, at its sole discretion, apply all or portions of this deposit to pay amounts not paid as and when due from Franchisee. Franchisor is also authorized to deduct fees from this deposit for any damages Franchisor incurs from Franchisee's breach of any agreement signed with Franchisor. If Franchisor actually deducts any amount from this deposit, Franchisor shall promptly notify Franchisee in writing at which time Franchisee must replenish the deposit back to \$10,000. Franchisor shall refund the balance of any payment security deposit, without any interest, within seven (7) days from the termination or expiration of this Agreement.

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

## **ARTICLE VI**

### **TRAINING AND COMMENCEMENT OF BUSINESS**

6.1 During the time period prior to starting construction of Franchisee's Coffeehouse, but not less than one month prior thereto, Franchisee shall attend Franchisor's initial training program, which shall be conducted at Franchisor's headquarters in Los Angeles, California or at another location designated by Franchisor, and complete the training program to Franchisor's satisfaction. Franchisee shall be responsible for all travel and living expenses which Franchisee and Franchisee's manager incur in connection with the initial training program. During the training program, Franchisee shall receive instruction, training and education in the operation of the Coffeehouse and indoctrination into the System. Such training

program shall include, but not be limited to, instructing Franchisee in the preparation and sale of Franchisee's proprietary Menu Items, the Products and quality control techniques and procedures.

6.2 Franchisee shall attend such periodic refresher and supplemental training programs or meetings at such locations as Franchisor may from time to time direct. All expenses of Franchisee incurred in connection with attendance at any such refresher or supplemental training programs or meetings shall be borne solely by Franchisee.

6.3 At all times during the term of this Agreement or any renewal thereof, Franchisee shall have a supervisor managing the operation of the Coffeehouse who has successfully completed Franchisor's training program and is able to operate the Coffeehouse in accordance with this Agreement and Franchisor's standards.

## **ARTICLE VII**

### **OBLIGATIONS OF FRANCHISOR**

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

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

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

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

7.5 Franchisor shall maintain an advisory relationship with Franchisee, including ongoing telephone consultation to aid in the proper and effective operation of the System, the frequency and duration of which shall be in the sole discretion of Franchisor in

accordance with Confidential Operations Manual. Such operating assistance may consist of advice and guidance with respect to:

A. Methods and operating procedures utilized by Coffeehouses;

B. Additional beverage and food products and services authorized for sale by Coffeehouses;

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

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

7.6 Franchisor or its designees or agents shall visit and inspect, from time to time, Franchisee's Coffeehouse and evaluate the proper execution of the System, and confer with Franchisee and Franchisee's employees in order to assist in the proper business operation of Franchisee's Coffeehouse in accordance with Confidential Operations Manual. Franchisor or its designees or agents shall have the absolute right to make inspections at such times and frequencies, during normal business hours, as Franchisor may determine. Franchisee will cooperate with Franchisor's representative in such inspections, render such assistance to them as they may reasonably request and immediately correct any failure to comply with the System and this Agreement as brought to Franchisee's attention by such representative.

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

7.8 In order to insure that the distinguishing characteristics of the System are uniformly maintained, Franchisor may from time to time establish standards for certain proprietary beverage/food items, products, equipment, commodities and supplies to be used by Franchisee in the execution of the System and may, in conjunction therewith, develop new proprietary beverage/food items, products, programs and develop new equipment and new techniques which Franchisee shall be required to use and/or purchase in the operation of Franchisee's Coffeehouse. The purchase of any new required equipment will not materially increase the economic burden of Franchisee.

7.9 Neither Franchisor's approval of a specific location for Franchisee's Coffeehouse, nor any other service provided by Franchisor pursuant to this Article shall be deemed a representation, warranty or judgment by Franchisor as to the likely success of Franchisee's Coffeehouse at such location or as to the relative desirability of

such location in comparison to others that might have been available to Franchisee.

**ARTICLE VIII**  
**OBLIGATIONS AND DUTIES OF FRANCHISEE**

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

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

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

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

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

8.6 Franchisee recognizes that it is essential to the proper marketing of the Coffeehouse, and to the preservation and promotion of its reputation and acceptance by the public at large, that standards of quality be maintained. As part of the consideration for this Agreement, Franchisee will at all times sell to retail customers only,

or offer for sale to retail customers only, only those products and services that meet the reasonable specifications and standards from time to time approved in writing by Franchisor, as permitted under this Agreement, and as permitted under the lease or sublease. In furtherance thereof, Franchisee shall be required to purchase only from Franchisor or its designee any Trade Secret Food Products and Proprietary System Assets, comprised of certain kitchen equipment and instruments which are proprietary in nature and unique to the Coffeehouse, that are specified by Franchisor from time to time.

8.7 In connection with the operation of Franchisee's Coffeehouse, Franchisee is required to purchase certain packaging supplies, paper goods and other product service items for the preparation and service of the Products which bear any of the Marks ("Branded Products"). In addition to the Trade Secret Food Products, Franchisee shall be required to purchase from Franchisor, its designee or Franchisor-approved vendor any Branded Products at then-current prices established from time to time. Franchisee is also required to purchase certain types, models and brands of equipment, fixtures and furniture, which are not specified as a Proprietary System Asset, as provided in the Confidential Operations Manual ("System Items") from Franchisor, its designee or Franchisor-approved vendor. In the event that Franchisee desires to purchase any Branded Products or System Items from sources other than Franchisor, its designee or Franchisor-approved vendor, Franchisee shall so request in writing, specifying the item or product Franchisee desires to purchase from another source not already approved by Franchisor, including samples, specifications and sufficient information on the source to enable Franchisor to determine whether the item or product meets with Franchisor's quality assurance requirements and specifications. Upon submission of the requested information to Franchisor, Franchisor shall conduct its evaluation, taking into consideration the product quality, delivery frequency and reliability, service standards as well as financial capability and credit of the identified supplier. Franchisor shall charge a reasonable fee to Franchisee for conducting this evaluation. Franchisor shall conduct its evaluation and advise Franchisee in writing of its decision within thirty (30) days from the date on which Franchisor received the requested information and materials sufficient to commence its evaluation. Franchisor and Franchisee acknowledge that Franchisor has no obligation to approve any request for a new supplier, product or item, but that Franchisor shall not unreasonably withhold its approval in this process.

8.8 In connection with the operation of Franchisee's Coffeehouse, Franchisee is required to purchase certain other beverage/food products, beverages and other similar products and other items offered for consumption to the retail purchaser as set forth in the Confidential Operations Manual. Franchisee's obligation under this Section 8.8 shall be satisfied so long as Franchisee purchases the stated products from sources of supply approved by Franchisor, subject to the same meeting the strict specifications of Franchisor which may be changed, modified or updated from time to time. Nothing in this

Agreement shall be construed as an attempt to unreasonably limit the sources from which Franchisee may procure such beverage/food products, beverages, products and other similar items. Rather, Franchisor intends that such items conform to Franchisor's strict standards and strict specifications of consistent quality and uniformity. Nothing contained in this Agreement shall be deemed to require Franchisor to approve an inordinate number of suppliers of a given item which, in the reasonable judgment of Franchisor, would result in higher costs generally to Franchisee or prevent effective and economical supervision of suppliers by Franchisor. Requests for approval of additional suppliers of non-Trade Secret Food Products or non-Branded Products shall be in writing and shall contain such information as Franchisor may reasonably request. Franchisor shall charge a reasonable fee to Franchisee for considering requests for approval. Franchisor shall, within thirty (30) days, notify Franchisee whether or not such proposed supplier is approved. Franchisor may impose limits on the number of suppliers for any beverage or food item used or served by the Coffeehouse.

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

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

8.11 Franchisee shall only sell or offer for sale such products as described in the prime lease, and Franchisee must obtain Franchisor's written approval for all contemplated menu changes and

all additions to and/or deletions of items sold in Franchisee's Coffeehouse.

8.12 Franchisee shall comply with all the terms, conditions, requirements, covenants and agreements set forth in this Agreement, and any renewals thereof, and supply Franchisor with such information (in addition to that otherwise provided for in this Agreement) as may be reasonably requested by Franchisor.

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

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

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

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

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

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

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

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

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

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

8.21 Franchisee shall be absolutely prohibited from having any vending machines, lottery games or games of chance, newspaper racks, juke boxes, gum or candy machines, games, pinball machines, pay

telephones, video games, rides or other mechanical or electronic devices installed or operated at the Coffeehouse.

**ARTICLE IX**  
**ADVERTISING AND PROMOTIONAL ACTIVITIES**

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

9.2 The Fund will be maintained and administered as follows:

9.2.1 Franchisee will contribute to the Fund weekly by electronic transfer (as specified in the Confidential Operations Manual) based on Franchisee's Gross Sales for each preceding week. During any period of business interruption, Franchisee will continue to make weekly contributions based on Franchisee's average weekly payment during the eight (8) week period immediately preceding the period of business interruption.

9.2.2 Any Franchisor-owned Tom N Toms Coffeehouses will make contributions to the Fund on a basis at least equal to that described in Section 9.1.

9.2.3 Franchisor will direct all advertising and promotional programs, with the sole discretion of approval over agencies, spokespersons, creative concepts, materials, and media placements and allocations used in the programs. The Fund will establish and maintain an on-line presence. Franchisee agrees that the Fund is intended to maximize general public recognition and acceptance of the Marks for the benefit of the System, and that Franchisor and its designees undertake no obligation in administering the Fund to make expenditures for Franchisee that are equivalent or proportionate to Franchisee's contributions, or to ensure that Franchisee benefits directly or pro rata from the placement of advertising.

9.2.4 Franchisee agrees that the Fund may be used to meet the costs of researching, preparing, maintaining, administering and directing advertising and promotional materials and programs (including the costs of preparing and conducting television, radio, magazine, newspaper, direct mail and coupon advertising campaigns and other public relations activities; employing advertising agencies; providing a toll-free number for prospective customers to call for referral purposes; and providing promotional brochures and other marketing materials to franchisees in the System). All sums contributed to the Fund will be maintained in a separate account from

Franchisor's general funds and will not be used to defray Franchisor's general operating expenses, except for reasonable administrative costs and overhead incurred in activities related to the administration or direction of the Fund up to fifteen percent (15%).

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

9.2.6 An unaudited summary report on the operation of the Fund will be prepared annually and will be made available to Franchisee on request ninety (90) to one hundred twenty (120) days after fiscal year end.

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

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

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

9.3 Franchisee must obtain and maintain a bold listing in the white pages directory (or equivalent) servicing Franchisee's area under the name "Tom N Toms" or "Tom N Toms Coffee" or any other name designated by Franchisor. If other Tom N Toms Coffeehouses are located nearby, Franchisee must participate in any local advertising cooperative that Franchisor establishes or causes to be formed, if Franchisor requires Franchisee's participation. Such participation may involve, for example, paying a pro rata share of the cost of yellow pages advertising (or equivalent) placed on behalf of Franchisee and other Tom N Toms Coffeehouses. If no other Tom N Toms Coffeehouses are located nearby, Franchisee must maintain a display advertisement, in a form Franchisor specifies, in the local yellow pages directory (or equivalent). The cost of Franchisee's white pages

and yellow pages advertising (or equivalent) will be borne by Franchisee. Franchisee may not solicit business through the use of an 800 (or other toll-free) number, direct mail or other advertising method without Franchisor's prior written consent.

9.4 Franchisee must submit to Franchisor, for its approval, all materials to be used for local advertising, unless they have been approved before or they consist only of materials Franchisor provided. All materials containing the Marks must include the designation trademark <sup>TM</sup>, registered trademark <sup>®</sup>, service mark <sup>SM</sup>, copyright <sup>©</sup>, or any other designation Franchisor specifies. If Franchisee does not receive written or oral disapproval of any materials submitted within ten (10) days from the date Franchisor receives the materials, the materials are deemed approved. Franchisor may require Franchisee to withdraw and/or discontinue the use of any promotional materials or advertising, even if previously approved. Franchisor must make this requirement in writing, and Franchisee will have five (5) days after receipt of Franchisor's notice to withdraw and/or discontinue use of the materials or advertising. Franchisee must include in any significant display advertisements, and in marketing materials for the Coffeehouse, in conformance with standards in the Confidential Operations Manual, a notice that the Coffeehouse is individually owned and operated. Subject to any legal restrictions, Franchisee also must display or make available, in the reception area of the Coffeehouse, marketing materials intended for general customers that Franchisor may provide to Franchisee from time to time.

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

9.6 Franchisee shall not maintain a World Wide Website or otherwise maintain a presence or advertise on the Internet or any other public computer network in connection with the Coffeehouse without Franchisor's prior written approval, which Franchisor may

withhold for any reason or for no reason. Franchisee will submit to Franchisor for approval before use, true and correct printouts of all Website pages Franchisee proposes to use in Franchisee's Website in connection with the Coffeehouse. Franchisee understands and agrees that Franchisor's right of approval of all such Web materials is necessitated by the fact that such Web materials will include and be inextricably linked with Franchisor's Marks. Franchisee may only use material which Franchisor has approved. Franchisee's Website shall conform to all of Franchisor's Website requirements, whether set forth in the Confidential Operations Manuals or otherwise. Franchisee agrees to provide all hyperlinks or other links that Franchisor requires. If Franchisor grants approval for a Website, Franchisee may not use any of the Marks at the site except as Franchisor expressly permits. Franchisee may not post any of Franchisor's proprietary, confidential or copyrighted material or information on Franchisee's Website without Franchisor's prior written consent. If Franchisee wishes to modify the approved site, all proposed modifications must also receive Franchisor's prior written approval. Franchisee explicitly understands that Franchisee may not post on Franchisee's Website any material which any third party has any direct or indirect ownership interest in (including, without limitation, video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image in which any third party may claim intellectual property ownership interests). Franchisee will list on Franchisee's Website any Website maintained by Franchisor, and any other information Franchisor requires in the manner Franchisor dictates. Franchisee agrees to obtain Franchisor's prior written approval for any internet domain name and/or home page address. The requirement for Franchisor's prior written approval set forth in this Section will apply to all activities on the Internet or other communications network to be conducted by Franchisee, except that Franchisee may maintain one or more E-mail addresses and may conduct individual E-mail communication without Franchisor's prior approval as provided above if Franchisee proposes to send advertising to multiple addresses via E-mail.

## **ARTICLE X**

### **REPORTS TO FRANCHISOR**

10.1 Franchisee shall keep full, complete and accurate books and accounts in accordance with generally accepted accounting principles and in accordance with the System, and Franchisee shall submit to Franchisor:

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

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

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

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

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

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

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

**ARTICLE XI**  
**CONFIDENTIAL OPERATIONS MANUAL**

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

11.2 Franchisee acknowledges and agrees that:

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

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

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

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

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

**ARTICLE XII**  
**INSURANCE**

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

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

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

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

D. Products Liability Insurance in an amount not less than Two Million Dollars (\$2,000,000), which policy shall be considered primary; and

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

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

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

12.4 Franchisor reserves the right to demand that Franchisee obtain Insurance from time to time which is different in coverage, risks, amount or otherwise from the foregoing in order to protect fully the parties having insurable interests in Franchisee's

Coffeehouse, provided such Insurance is reasonably common in the area for similar operations.

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

### **ARTICLE XIII** **RELATIONSHIP OF THE PARTIES; INDEMNIFICATION**

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

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

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

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

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

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

13.7 Franchisor shall indemnify and hold Franchisee harmless against, and to reimburse Franchisee for, any loss, liability or damage (actual or consequential) and all reasonable costs and expenses of defending any claim brought against Franchisee or any action in which Franchisee is named as a party (including, without limitation, reasonable accountants', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses) which Franchisee may suffer, sustain or incur solely by reason of, arising from or in connection with the negligence of Franchisor (or any of its affiliates, i.e., any company controlling, controlled by or under common control with Franchisor) in producing, handling or storing the Products (provided Franchisee shall have established that Franchisee inspected such Products in accordance with the procedures set forth in the Confidential Operations Manual and could not have reasonably discovered the adulteration or other defect in such Products which was the cause of such loss, liability or damage). Franchisee acknowledges and agrees that any action or inaction by any third party (e.g., an

independent carrier) which is not an affiliate of Franchisor in connection with handling or storing proprietary beverage/food items shall not be attributable to or constitute negligence of Franchisor.

**ARTICLE XIV**  
**COVENANTS NOT TO COMPETE**

14.1 During the term of this Agreement, or any extension thereof, neither Franchisee, nor any partner, if Franchisee is a partnership, nor any shareholder, if Franchisee is a corporation, shall either directly or indirectly for himself or herself or on behalf of, or in conjunction with any other person, persons, partnership, association or corporation, own, maintain, engage in, participate or have any interest in the operation of any enterprise which is the same or substantially similar to the Tom N Toms franchise, or any other business which distributes, produces or sells the Menu Items (where the cumulative sales of such Menu Items comprise at least 50% of total sales of such business), provided, however, that this prohibition should not apply to the ownership by Franchisee of additional Tom N Toms Coffeehouses.

14.2 For a period of two (2) years following termination, expiration, or non-renewal of this Agreement, except where the termination occurs due to the fault or action of Franchisor and not due to default of Franchisee or any partner, if Franchisee is a partnership, or any shareholder, if Franchisee is a corporation, Franchisee shall not, except with respect to the ownership or operation by Franchisee of additional Coffeehouses:

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

B. Either directly or indirectly for himself or on the behalf of, or in conjunction with, any other person, persons, partnership, association or corporation, own, maintain, engage in, participate in, or have any interest in the operation of any enterprise which directly or indirectly competes with or is the same or substantially similar to the franchise covered by this Agreement, or which distributes, produces or sells the Products within the "Minimum Area of Competition". The "Minimum Area of Competition" shall be deemed to be that area which is within a radius of five (5) miles from Franchisee's Coffeehouse, or any other Coffeehouse in operation on the effective date of termination or expiration, whether franchised or company-owned.

14.3 If Franchisee fails or refuses to comply with any covenants of this Article, even if such failure or refusal is based upon a claim that the laws of any particular jurisdiction excuse such non-

compliance, or make the provisions unenforceable in whole or in part, and provided that the jurisdiction in which Franchisee's Coffeehouse is located permits, Franchisee separately covenants and agrees that while this Agreement is in effect and for two (2) years after its termination, except where termination occurs due to the fault or action of Franchisor and not due to default of Franchisee, Franchisor shall have the right to require that all sales made in the operation of any business which directly or indirectly competes with: (a) Franchisor; (b) a Coffeehouse; or (c) the System, or which distributes, produces or sells any of the Products (i) anywhere, if this Agreement is then in effect, or (ii) within the Minimum Area of Competition, if this Agreement has been terminated, shall be reported to Franchisor. Franchisee agrees to pay Franchisor upon demand, the weekly fee of Five Hundred Dollars (\$500) at the times and in the manner specified in Article V above, all without being deemed to revive, modify or expand this Agreement. The covenants of this Article shall survive the termination or expiration of this Agreement.

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

14.5 The covenants contained in Sections 14.2, 14.3 and 14.4 above shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Article is held unreasonable or unenforceable by a court or agency having valid jurisdiction in any unappealed final decision to which Franchisor is a party, Franchisee expressly agrees to be bound by any lesser covenant subsumed with the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated and made a part of this Article.

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

14.7 Covenants contained in this Article shall be construed as severable and independent and shall be interpreted and applied consistent with the requirements of reasonableness and equity. Any judicial reformation of these covenants consistent with this interpretation shall be enforceable as though contained in this

Agreement and shall not affect any other provisions or terms of this Agreement.

#### **ARTICLE XV** **MODIFICATION OF THE SYSTEM**

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

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

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

**ARTICLE XVI**  
**FRANCHISEE**

The term "Franchisee" shall include all persons who succeed to the interest of the original Franchisee by transfer or operation of law, and shall be deemed to include not only the individual or entity defined as "Franchisee" in the introductory paragraph of this Agreement, but shall also include partners of the entity that execute this Agreement in the event the entity is a partnership, and all shareholders, officers and directors of the entity that execute this Agreement in the event the entity is a corporation. By their signatures to this Agreement, all partners, shareholders, officers and directors of the entity that signs this Agreement as Franchisee acknowledge and accept, jointly and severally, the duties and obligations imposed upon each of them, individually, by the terms of this Agreement. The singular usage includes the plural and the neuter and masculine usages include the other and the feminine.

**ARTICLE XVII**  
**TERMINATION**

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

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

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

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

D. A breach by Franchisee of any provision of this Agreement, any material provision of the Confidential Operations Manual, or any other agreement between Franchisor and Franchisee or any of its subsidiary or affiliated corporations;

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

F. Franchisee's engaging in any conduct or practice that, in the reasonable opinion of Franchisor, is detrimental or harmful to

the good name, goodwill or reputation of Franchisor or its products or other franchisees or the public;

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

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

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

J. Unauthorized or improper use by Franchisee of Franchisor's Marks;

K. Misuse or unauthorized disclosure by Franchisee of the Confidential Operations Manual, information or materials;

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

M. Failure to open Franchisee's Coffeehouse at the location designated by Franchisee within the time specified in the lease or sublease;

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

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

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

17.2 To terminate Franchisee for default of this Agreement pursuant to Section 17.1 above, Franchisor shall first provide Franchisee with written notice of termination, which notice shall specify the reason for and the Effective Date of Termination. This Agreement shall terminate on the date specified in the notice, which

shall not be less than thirty (30) days from the date of the notice (or such longer period as provided by State law), unless:

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

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

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

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

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

(i) An affirmative act of insolvency;

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

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

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

C. Failure by Franchisee to satisfy fully a civil judgment obtained against Franchisee for a period of more than thirty (30) days after all rights of appeal have been exhausted, or execution

of such a judgment, execution of a lien, or foreclosure by a secured party or mortgage against Franchisee's property, which judgment, execution of a lien, or foreclosure by a secured party or mortgage would have an adverse or detrimental effect upon Franchisee's franchised operation;

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

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

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

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

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

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

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

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

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

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

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

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

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

18.7 Upon the Effective Date of Termination, Franchisee shall, pursuant to the lease or sublease or conditional lease assignment and upon demand of Franchisor, vacate and surrender the Coffeehouse

premises in accordance with the terms and conditions under the terms of the lease, sublease and/or conditional lease assignment.

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

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

18.10 If Franchisor notifies Franchisee of its intent to do so within ten (10) days after the Effective Date of Termination, Franchisor shall have the right (but not the duty) to purchase any or all of the signs, advertising material, supplies, equipment and any items bearing Franchisor's Marks at Franchisee's cost or fair market value, whichever is less. If the parties cannot agree on fair market value within a reasonable time, each party shall designate an independent qualified appraiser, and their joint determination shall be binding on both parties. If these appraisers are unable to agree upon a fair market value, they will designate a third, approved appraiser whose determination shall be binding upon both parties. If Franchisor elects to exercise its option to purchase, it shall have the right to set off all amounts due from Franchisee under this Agreement, and the cost of the appraisal, if any, against any payment therefor.

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

18.12 **Liquidated Damages**. In the event this Agreement is terminated by Franchisor in accordance with its terms, Franchisee shall pay to Franchisor within 30 days of the date of the termination, as liquidated damages for the premature termination of this Agreement and not as a penalty, an amount equal to the average monthly royalty fees paid by Franchisee in the 12 months immediately preceding the effective date of termination multiplied by the total number of months

remaining in in the term of this Agreement. The amount of liquidated damages shall then be reduced to the present value of such payments as of the date of termination utilizing an interest rate of five percent (5%). Franchisee acknowledges that Franchisor's losses would be difficult to ascertain and that the amount calculated under the formula specified in this paragraph was a reasonable estimate of Franchisor's potential actual damages to be sustained by Franchisee's breach and does not constitute a penalty or forfeiture. Franchisee further acknowledges that the damages described herein (i) are true liquidated damages; (ii) are intended to compensate Franchisor for its damages; (iii) are not a penalty; (iv) are a reasonable estimate of Franchisor's probable loss resulting from Franchisee's breach, viewed as of the Effective Date; and (v) will be in addition to all other rights Franchisor has under this Agreement to obtain legal or equitable relief.

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

#### **ARTICLE XIX**

##### **COMMENCEMENT AND HOURS OF OPERATIONS**

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

**ARTICLE XX**  
**TRANSFERABILITY OF INTEREST**

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

20.2 If Franchisee is an individual, Franchisor hereby consents, upon thirty (30) days' prior written notice, to the assignment by Franchisee of all of Franchisee's rights and benefits under this Agreement to a corporation of which Franchisee owns at least a majority of the voting and equity stock, provided that:

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

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

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

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

**"The transfer of this stock  
certificate is subject to the terms  
and conditions of a certain Franchise  
Agreement entered into with Tom N Toms**

**Franchise, LLC dated \_\_\_\_\_,**  
**20\_\_".**

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

20.4 In addition to all of the other conditions set forth in Sections 20.2 and 20.3 above that pertain to the right of Franchisee to assign, transfer or sell the license created hereunder, Franchisee agrees that any and all rights of assignment, transfer or sale by Franchisee of this franchise and the its rights are conditioned upon compliance with each of the following:

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

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

reasonably increase the Royalty Fee and the Advertising Fee, in conformity with the System, during any renewals of the Agreement;

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

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

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

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

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

H. Assignee, transferee, or purchaser shall, prior to any such assignment, pay to Franchisor a non-refundable training and transfer fee equal to Ten Thousand (\$10,000) Dollars or 50% of then-current Initial Franchise Fee, whichever is greater ("Transfer Fee"), to reimburse Franchisor for its legal and accounting fees, credit investigation, training expenses, and other charges and expenses in connection with such assignment, transfer or sale; and

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

20.5 Franchisor shall have the right, without the need for Franchisee's consent, to assign, transfer or sell its rights under this Agreement to any person, partnership, corporation or other legal entity, provided that the transferee agrees in writing to assume all obligations undertaken by Franchisor in this Agreement and Franchisee

receives a statement from both Franchisor and its transferee to that effect. Upon such assignment and assumption, Franchisor shall be under no further obligation hereunder, except for accrued liabilities, if any. Franchisee further agrees and affirms that Franchisor may go public; may engage in a private placement of some or all of its securities; may merge, acquire other corporations, or be acquired by another corporation; and/or may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring. With regard to any of the above sales, assignments and dispositions, Franchisee expressly and specifically waives any claims, demands or damages arising from or related to the loss of Franchisor's name, Marks (or any variation thereof) and System and/or the loss of association with or identification of Tom N Toms Franchise, LLC as Franchisor under this Agreement. Franchisee specifically waives any and all other claims, demands or damages arising from or related to the foregoing merger, acquisition and other business combination activities including, without limitation, any claim of divided loyalty, breach of fiduciary duty, fraud, breach of contract or breach of the implied covenant of good faith and fair dealing.

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

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

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

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

any of the terms or conditions of this Agreement by the assignee, transferee or purchaser.

20.8 If, subject to the restrictions and conditions of transfer contained in this Article, Franchisee shall attempt to raise or secure funds by the sale of securities (including, without limitation, common or preferred stock, bonds, debentures or general or limited partnership interests) in Franchisee or any affiliates of Franchisee, Franchisee, recognizing that the written information used with respect thereto may reflect upon Franchisor, will submit any such written information to Franchisor prior to its inclusion in any registration statement, prospectus or similar offering circular or memorandum and will obtain the written consent of Franchisor to the method of financing prior to any offering or sale of such securities. For each proposed offering, Franchisee shall pay Franchisor a non-refundable fee in an amount equal to Five Thousand Dollars (\$5,000) in order to reimburse Franchisor for its reasonable costs and expenses associated with reviewing the proposed offering, including, without limitation, legal and accounting fees. The written consent of Franchisor pursuant to this Section 20.8 shall not imply or constitute the approval of Franchisor with respect to the method of financing, the offering literature submitted to Franchisor or any other aspect of the offering. No information respecting Franchisor or any of its affiliates shall be included in any securities disclosure document, unless such information has been furnished by Franchisor, in writing, pursuant to the written request of Franchisee, in which Franchisee states the specific purpose for which the information is to be used. Should Franchisor, in its sole discretion, object to any reference to Franchisor or any of its affiliates or any of their businesses in such offering literature or prospectus, such literature or prospectus shall not be used unless and until the objections of Franchisor are withdrawn. Franchisor assumes no responsibility for any offering.

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

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

Franchisee and each of its owners agrees to indemnify, defend and hold harmless Franchisor and its affiliates, and their respective officers, directors, employees and agents, from any and all claims, demands, liabilities, and all costs and expenses (including, without limitation, reasonable attorneys' fees) incurred in the defense of

such claims, demands or liabilities, arising from the offer or sale of such securities, whether asserted by a purchaser of any such security or by a governmental agency. Franchisor shall have the right (but not the obligation) to defend any such claims, demands or liabilities and/or to participate in the defense of any action to which Franchisor or any of its affiliates or any of their respective officers, directors, employees or agents is named as a party.

**ARTICLE XXI**  
**DEATH OR INCAPACITY OF FRANCHISEE**

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

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

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

C. If Transferee is not approved, Franchisee or Franchisee's legal representative shall use that person's best efforts to sell the Coffeehouse to a party acceptable to Franchisor within twelve (12) months from the date of Franchisee's death or permanent incapacity or disability and Franchisor shall have the option, but not the obligation, to operate and/or manage the Coffeehouse for the account of Franchisee's estate until the deceased or incapacitated Franchisee's interest is transferred to another party acceptable to Franchisor. Should Franchisor elect to operate and/or manage the franchised Coffeehouse, Franchisor shall make a complete accounting and shall forward fifty percent (50%) of the net income for the operation of the Coffeehouse to Franchisee's estate. If the conveyance of the Coffeehouse to a party acceptable to Franchisor has not taken place within the twelve (12) month period, Franchisor shall have the option, but not the duty, to purchase the Coffeehouse and its equipment at the fair market value thereof as determined by independent qualified appraisers selected by Franchisor and the estate. In the event that these appraisers cannot agree on a fair market value, a third appraiser shall be selected by the other two appraisers and that appraiser's determination shall be binding on both

parties. However, if Franchisor chooses not to repurchase the Coffeehouse, then it may elect to terminate this Agreement, in which event the business franchised under this Agreement will automatically revert back to Franchisor, with Franchisor being obligated to purchase the equipment and trade fixtures at their book value, as set forth in the last certified financial statement of Franchisee.

**ARTICLE XXII**  
**OPERATION IN THE EVENT OF ABSENCE OR DISABILITY**

In order to prevent any interruption of the Coffeehouse operations which would cause harm to the Coffeehouse, thereby depreciating its value, if Franchisee is absent for any reason or is incapacitated by reason of illness and is unable, in the sole and reasonable judgment of Franchisor, to operate the Coffeehouse, Franchisee authorizes Franchisor, who may, at its option, operate the Coffeehouse for so long as Franchisor deems necessary and practical, and without waiver of any other rights or remedies Franchisor may have under this Agreement. All monies from the operation of the Coffeehouse during such period of operation by Franchisor shall be kept in a separate account, the expenses of the Coffeehouse, including reasonable compensation and expenses for Franchisor's representative, shall be charged to that account. If, as provided in this Article, Franchisor temporarily operates the Coffeehouse for Franchisee, Franchisee will indemnify and hold harmless Franchisor and any representative of Franchisor who may act under this Agreement, from any and all acts which Franchisor may perform, as regards the interests of Franchisee or third parties.

**ARTICLE XXIII**  
**INJUNCTIVE RELIEF**

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

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

**ARTICLE XXIV**  
**RISK OF OPERATIONS**

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

**ARTICLE XXV**  
**OTHER OBLIGATIONS**

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

**ARTICLE XXVI**  
**FORCE MAJEURE**

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

**ARTICLE XXVII**  
**WAIVER OF VIOLATION OR DEFAULT**

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

**ARTICLE XXVIII**  
**NOTICE AND TIME**

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

Notices to Franchisor:

Tom N Toms Franchise, LLC  
  
3435 Wilshire Blvd., Suite 2090  
Los Angeles, CA 90010  
Tel: 213 568-3577  
Attention: President

Notice to Franchisee shall be addressed to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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

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

#### **ARTICLE XXIX** **APPLICABLE LAW AND VENUE**

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

29.2 No right or remedy conferred upon or reserved to Franchisor or Franchisee by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy in this Agreement or by law or equity provided or permitted, but each shall be cumulative of every other right or remedy.

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

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

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

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

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

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

### **ARTICLE XXX** **ARBITRATION**

30.1 IF ANY PARTY IS REQUIRED TO EMPLOY LEGAL COUNSEL OR TO INCUR OTHER REASONABLE EXPENSES TO ENFORCE ANY OBLIGATION OF ANOTHER PARTY, OR TO DEFEND AGAINST ANY CLAIM, DEMAND, ACTION, OR PROCEEDING BY REASON OF ANOTHER PARTY'S FAILURE TO PERFORM ANY OBLIGATION IMPOSED UPON SUCH PARTY BY THIS AGREEMENT, AND PROVIDED THAT LEGAL ACTION IS FILED BY OR AGAINST THE FIRST PARTY AND SUCH ACTION OR ITS SETTLEMENT ESTABLISHES THE OTHER PARTY'S DEFAULT, THEN THE PREVAILING PARTY SHALL BE ENTITLED TO RECOVER FROM THE OTHER PARTY THE AMOUNT OF ALL REASONABLE ATTORNEYS' FEES OF SUCH COUNSEL AND ALL OTHER EXPENSES REASONABLY INCURRED IN ENFORCING SUCH OBLIGATION OR IN DEFENDING AGAINST SUCH CLAIM, DEMAND, ACTION, OR PROCEEDING, WHETHER INCURRED PRIOR TO OR IN PREPARATION FOR OR CONTEMPLATION OF THE FILING OF SUCH ACTION OR THEREAFTER. NOTHING CONTAINED IN THIS PARAGRAPH SHALL RELATE TO ARBITRATION PROCEEDINGS PURSUANT TO THIS AGREEMENT.

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

30.3 EACH PARTY SHALL SELECT ONE (1) ARBITRATOR (WHO SHALL NOT BE COUNSEL FOR THE PARTY), AND THE TWO (2) SO DESIGNATED SHALL SELECT A THIRD ARBITRATOR. IF EITHER PARTY SHALL FAIL TO DESIGNATE AN ARBITRATOR WITHIN SEVEN (7) DAYS AFTER ARBITRATION IS REQUESTED, OR IF THE TWO ARBITRATORS SHALL FAIL TO SELECT A THIRD ARBITRATOR WITHIN FOURTEEN (14) DAYS AFTER ARBITRATION IS REQUESTED, THEN AN ARBITRATOR SHALL BE SELECTED BY THE AMERICAN ARBITRATION ASSOCIATION OR ANY SUCCESSOR THERETO UPON APPLICATION OF EITHER PARTY. JUDGMENT UPON ANY

AWARD OF THE MAJORITY OF THE ARBITRATORS SHALL BE BINDING AND SHALL BE ENTERED IN A COURT OF COMPETENT JURISDICTION. THE AWARD OF THE ARBITRATORS MAY GRANT ANY RELIEF WHICH MIGHT BE GRANTED BY A COURT OF GENERAL JURISDICTION, INCLUDING, WITHOUT LIMITATION, BY REASON OF ENUMERATION, AWARD OF DAMAGES (BUT EXCLUDING INJUNCTIVE RELIEF), AND MAY, IN THE DISCRETION OF THE ARBITRATORS, ASSESS, IN ADDITION, THE COSTS OF ARBITRATION, INCLUDING THE REASONABLE FEES OF THE ARBITRATORS AND REASONABLE ATTORNEYS' FEES, AGAINST EITHER OR BOTH PARTIES, IN PROPORTIONS AS THE ARBITRATORS SHALL DETERMINE.

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

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

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

#### **ARTICLE XXXI**

#### **ACKNOWLEDGMENTS**

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

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

31.3 FRANCHISEE ACKNOWLEDGES THAT FRANCHISEE HAS RECEIVED A COMPLETE COPY OF FRANCHISOR'S FRANCHISE DISCLOSURE DOCUMENTS, THIS AGREEMENT, THE EXHIBITS REFERRED TO IN THIS AGREEMENT, AND ANY OTHER

AGREEMENTS RELATING HERETO, IF ANY, AT LEAST FOURTEEN (14) CALENDAR DAYS PRIOR TO THE DATE ON WHICH THIS AGREEMENT WAS EXECUTED.

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

**ARTICLE XXXII**  
**ENTIRE AGREEMENT**

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

**ARTICLE XXXIII**  
**JOINT AND SEVERAL OBLIGATION**

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

**ARTICLE XXXIV**  
**SECURITY INTEREST**

Franchisee grants to Franchisor a security interest in all of Franchisee's interest in all leasehold improvements, furniture, furnishings, fixtures, equipment, inventory and supplies located at or used in connection with the Coffeehouse, now or hereafter leased or acquired, together with all attachments, accessions, accessories, additions, substitutions and replacements therefore, and all cash and non-cash proceeds derived from insurance or the disposition of such collateral, to secure payment and performance of all debts,

liabilities and obligations of any kind, whenever and however incurred, of Franchisee to Franchisor. Franchisee agrees to execute and deliver to Franchisor in a timely manner all financial statements and other documents necessary or desirable to evidence, perfect and continue the priority of such security interests under the Uniform Commercial Code. For such purposes, the address of Franchisee and Franchisor are set forth in Article XXVIII of this Agreement. If Franchisee is in good standing, Franchisor will, upon request, execute subordinations of its security interest to suppliers, lenders and/or lessors furnishing equipment or financing for the Coffeehouse.

**ARTICLE XXXV**  
**COUNTERPART; PARAGRAPH HEADINGS; PRONOUNS**

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

**ARTICLE XXXVI**  
**SEVERABILITY AND CONSTRUCTION**

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

36.2 Anything to the contrary in this Agreement notwithstanding, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity, other than Franchisor or Franchisee and such of their respective successors and assigns as may be contemplated by this Agreement, any rights or remedies under or by reason of this Agreement.

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

in a final decision to which Franchisor is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court order.

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

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

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

FRANCHISOR

FRANCHISEE

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

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

**TOM N TOMS FRANCHISE, LLC**

**FRANCHISE AGREEMENT**

**EXHIBIT "A"**

**LOCATION AND TERRITORY**

Franchisee's Location and Territory shall be as follows:

FRANCHISOR

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

FRANCHISEE

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

**TOM N TOMS FRANCHISE, LLC**

**FRANCHISE AGREEMENT**

**EXHIBIT "B"**

**GUARANTEE AGREEMENT**

THIS GUARANTEE AGREEMENT ("Guarantee") entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_, by and between Tom N Toms Franchise, LLC, a California limited liability company ("Secured Party" or "Franchisor") and each of the undersigned persons and their spouses (each a "Guarantor"), being all of the shareholders or members, partners, principals or other owners or controlling persons, as applicable, of the "Franchisee" or "Debtor" (as hereafter defined).

**W I T N E S S E T H:**

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

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

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

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

**ARTICLE I**  
**GUARANTEE**

**1.1** Guarantor unconditionally guarantees the full, prompt, complete and faithful performance, payment, observance and fulfillment by Debtor of all of the terms, covenants and conditions and any

obligation(s) under the Documents when due and any and all fees, royalties and other sums that may become due to the Secured Party from Debtor under the Documents ("Obligation(s)"). Guarantor further agrees to pay all expenses (including reasonable attorneys' fees and legal expenses) incurred by the Secured Party in endeavoring to collect the Obligation(s), or any part thereof, or in securing the performance thereof, or in enforcing this Guarantee.

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

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

## **ARTICLE II**

### **REMEDIES AND RIGHTS OF SECURED PARTY**

**2.1** The Secured Party shall give Guarantor notice in writing of an Event of Default or any event which might mature into an Event of Default known to Secured Party (but neither failure to give, nor defect in, any notice shall extinguish or in any way affect the Obligation(s) of Guarantor hereunder). Neither demand on, nor the pursuit of any remedies against, Debtor or any other guarantor of the Obligation(s) ("Obligor") shall be required as a condition precedent to, or neither the dependency nor the prior termination of any action, suit or proceeding against the Debtor or any Obligor (whether for the

same or a different remedy) shall bar or prejudice the making of a demand on Guarantor by the Secured Party and the commencement against Guarantor after such demand of, any action, suit or proceeding, at law or in equity, for the specific performance of any covenant or agreement contained in the Documents or for the enforcement of any other appropriate legal or equitable remedy.

**2.2** Guarantor's liability hereunder is primary, direct and immediate. Guarantor agrees that neither:

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

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

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

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

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

**2.3** In case any of the Guarantor shall become insolvent or admit in writing his, her or its inability to pay his, her or its debts as they mature, or apply for, consent to or acquiesce in the appointment of a trustee, receiver, liquidator, assignee, sequestrator or other similar official for either Guarantor, or any of his, her or its property; or, in the absence of such application, consent or acquiescence, a trustee, receiver, liquidator, assignee, sequestrator or other similar official is appointed for Guarantor, or for a substantial part of his, her or its property and is not discharged within 60 days; or any bankruptcy, reorganization, debt arrangement or other proceeding under any bankruptcy, admiralty or insolvency law or at common law or in equity is instituted by or against Guarantor, or remains for 60 days undismissed, then if any such event shall occur at a time when any of the Obligation(s) may not be then due and payable, Guarantor will pay to the Secured Party forthwith the whole unpaid amount under the Documents and Documents plus any other sums due under

the Documents and other Documents, irrespective of whether any demand shall have been made on Guarantor, Debtor or any Obligor by intervention in or initiation of judicial proceedings relative to Guarantor, his, her or its creditors or his, her or its property. The Secured Party may file and prove a claim or claims for the whole unpaid amount or any portion thereof and for any other sums due under the Documents and other Documents and file such other papers or documents as may be necessary or advisable in order to have such claim allowed in such judicial proceedings and to collect and receive any monies or other property payable or deliverable on any such claim, and to distribute the same; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to the Secured Party.

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

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

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

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

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

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

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

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

**2.6** Guarantor agrees that if at any time all or any part of any payment theretofore applied by the Secured Party to any of the Obligation(s) is or must be rescinded or returned by the Secured Party

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

### **ARTICLE III** **GUARANTOR'S WARRANTIES**

**3.1** Guarantor represents and warrants to the Secured Party that:

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

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

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

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

(v) The Financial Statement of Debtor attached hereto as Exhibit "A" is correct in all material respects and accurately represents the financial condition of Debtor as of \_\_\_\_\_, 20\_\_.

### **ARTICLE IV** **MISCELLANEOUS PROVISIONS**

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

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

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

**4.4** Guarantor hereby expressly waives:

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

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

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

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

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

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

**4.7** Any provision of this Guarantee that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and no such

prohibition or unenforceability shall invalidate or render unenforceable such provision in any other jurisdiction.

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

**"SECURED PARTY"**

FRANCHISOR

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

**"GUARANTORS"**

**"SPOUSE"**

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

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

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

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**TOM N TOMS FRANCHISE, LLC**

**FRANCHISE AGREEMENT**

**EXHIBIT "C"**

**CONDITIONAL LEASE ASSIGNMENT PROVISIONS**

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

(i) The premises being leased hereunder shall be used solely for the operation of a Tom N Toms Coffeehouse.

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

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

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

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

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

(vii) The Lessor shall give written notice to Franchisor (concurrently with the giving of such notice to the Lessee) of

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

(viii) The Lessor acknowledges that the said Franchise Agreement contains a right on the part of Franchisor, in the event of expiration or termination of the said Franchise Agreement for any reason whatsoever, to enter the premises hereby demised and to operate the Coffeehouse for the account of the Lessee for a period as set forth in the said Franchise Agreement. The Lessor further acknowledges that such entry by Franchisor shall not constitute an assignment of this Lease, nor a subletting of the premises hereby demised.

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

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

FRANCHISOR

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

FRANCHISEE

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

**TOM N TOMS FRANCHISE, LLC**

**FRANCHISE AGREEMENT**

**EXHIBIT "D"**

**SITE LOCATION ADDENDUM**

Site Location

Tom N Toms Franchise, LLC ("Franchisor") and Franchisee ("Franchisee") have on this date, \_\_\_\_\_, 20\_\_, entered into a certain Franchise Agreement, ("Franchise Agreement") and desire to supplement its terms as set out below. The parties hereto therefore agree as follows:

A. Site Selection

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

B. Guidelines and Evaluation

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

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

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

C. Site Approval

Prior to the acquisition by lease or purchase of any proposed location for the franchised business, Franchisee shall submit to Franchisor, in the form specified by Franchisor, a description of the proposed location and such other information or materials as Franchisor may reasonably require. Recognizing that time is of the essence, Franchisee agrees that it must submit such information and material for the proposed location to Franchisor for its approval no

later than \_\_\_\_\_ (\_\_\_\_) days after the execution of the Franchise Agreement. Franchisor shall have \_\_\_\_\_ (\_\_\_\_) days after receipt of such information and materials from Franchisee to approve or disapprove, at its sole discretion, the proposed location as the location for the franchised business. The proposed location shall not be deemed approved unless written notice of approval is given to Franchisee by Franchisor.

D. Lease Provisions

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

1. That the premises shall be used only for the operation of the franchised business.

2. That the landlord has examined Franchisor's standard design concepts and consents to Franchisee's use of such Proprietary Marks and signage as Franchisor may prescribe for the franchised business.

3. That the landlord agrees to furnish Franchisor with copies of any and all letters and notices sent to Franchisee pertaining to the lease and premises, at the same time that such letters and notices are sent to Franchisee.

4. That Franchisee may not sublease or assign all or any part of its occupancy rights, or extend the term or renew the lease, without Franchisor's prior written consent.

5. That Franchisor shall have the right to enter the premises to make any modification necessary to protect Franchisor's Proprietary Marks or to cure any default under the lease or under this Agreement.

6. That Franchisor shall have the option to assume Franchisee's occupancy rights, and the right to assign or sublease for all or any part of the remaining term, upon Franchisee's default or termination under such lease or under this Agreement.

7. That Franchisor shall be furnished a copy of the executed lease, ten (10) days after its execution, and no change or amendment to such lease affecting the above terms and conditions shall be effective without Franchisor's prior written approval.

E. Relocation

Upon Franchisor's approval of a location for the franchised business, or upon execution of this Agreement, whichever occurs earlier, the street address of the approved location of the franchised business shall be recorded and shall be attached as Exhibit "A" to

this Agreement. Franchisee shall not relocate the franchised business without the express prior written consent of Franchisor.

F. Construction

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

G. Permits and Approvals

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

H. Time of Essence

Franchisee and Franchisor agree that time is of the essence in Franchisee's performance of its obligations hereunder. Any failure by Franchisee to meet the time limits imposed under this Addendum shall constitute a default under Section 13.2.A of the Franchise Agreement, for which Franchisor may terminate this Agreement upon notice to Franchisee.

I. Effect of Franchise Agreement

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

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

**FRANCHISOR**

**FRANCHISEE**

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

**TOM N TOMS FRANCHISE, LLC**

**FRANCHISE AGREEMENT**

**EXHIBIT "E"**

**CONFIDENTIALITY AND NON-COMPETITION AGREEMENT**

**THIS AGREEMENT** is made by and between Tom N Toms Franchise, LLC, a California limited liability company (the "Franchisor"), and \_\_\_\_\_ (the "Franchisee").

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

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

**WHEREAS**, Franchisor desires to preserve the Marks and the System, and has plans, where profitable, to increase the number of Tom N Toms Coffeehouses within the United States and elsewhere; and

**WHEREAS**, Franchisee desires to be a Tom N Toms franchisee; and

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

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

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

2. Franchisor Ownership of Materials. All information, ideas, research, methods, techniques, specifications, guidelines, secret recipes, manuals, procedures, systems, improvements, notes, data, tapes, reference items, financial information, literature, files, supplier lists, notebooks, calendars, sketches, drawings, memoranda, records and copyrighted and other materials, including Franchisor's Confidential Operating Manual, and the goodwill associated with them, which in any way relate to Franchisor's past, present or potential business or which were prepared or received by Franchisee as a franchisee of Franchisor and a participant in the System (collectively referred to as "Confidential Information") are the exclusive property of Franchisor. Franchisee agrees to deliver to Franchisor all copies of such materials including Franchisee's own personal work papers, which are in Franchisee's possession or under Franchisee's potential control at the request of Franchisor or, in the absence of such a request, upon the termination of that certain Franchise Agreement dated even date herewith between Franchisor and Franchisee (the "Franchise Agreement").

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

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

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

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

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

(a) Have or acquire an interest in a similar business to that offered or developed by Franchisor which provides the same or substantially similar products as those sold, distributed, manufactured or furnished by Franchisor during the term of the Franchise Agreement. For purposes of this Agreement, "similar business" means a retail beverage service coffeehouse that sells the same or substantially similar products as Menu Items, as such term is defined in the Franchise Agreement, where the cumulative sales of such products comprise at least 50% of total sales of such business;

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

(c) Compete, directly or indirectly, with Franchisor in the offering, distribution or sale of products similar to the Products offered or provided or manufactured by Franchisor as of the termination of this Agreement. Prohibited competition under this subsection (c) may include, but is not limited to, the solicitation of, attempted solicitation, or other contacts with franchisees,

landlords, suppliers and customers of Franchisor for the purpose of offering, providing or delivering Products or services similar to those offered and provided by Franchisor to the public; or the request, suggestion or advice to Franchisees, landlords, suppliers or customers, either directly or indirectly, to withdraw, curtail, limit or cancel their business with Franchisor; or to disclose, directly or indirectly, to any other person the names and addresses of franchisees, landlords, suppliers and customers of Franchisor; or the terms and conditions of Franchisor's contracts with suppliers of these Products;

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

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

#### 7. Enforcement.

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

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

(c) Costs. Franchisee further agrees that if Franchisee acts in any manner which causes Franchisor to seek any form of judicial relief or remedy against Franchisee, and the court determines Franchisee has or is violating any of the provisions of this Agreement, Franchisor, in addition to its other remedies, shall be entitled to recover from Franchisee all costs incurred, including its attorneys' fees.

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

9. Miscellaneous.

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

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

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

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

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

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

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

**IN WITNESS WHEREOF,** Franchisor and Franchisee attest that each has read and understands the terms of this Agreement, and voluntarily signed this Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

FRANCHISOR

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

FRANCHISEE:

By: \_\_\_\_\_  
(Franchisee)

By: \_\_\_\_\_  
(Manager)

**TOM N TOMS FRANCHISE, LLC**

**FRANCHISE AGREEMENT**

**EXHIBIT "F"**

**TRANSFER OF FRANCHISE TO A CORPORATION**

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

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

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

"The shares of stock represented by this certificate are subject to the terms and conditions set forth in a Franchise Agreement dated \_\_\_\_\_, 20\_\_ between Franchisee and Tom N Toms Franchise, LLC".

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

4. \_\_\_\_\_ hereby agrees to become a party to and to be bound by all of the provisions of the Franchise Agreement executed on the date set forth below between Franchisee and Tom N Toms Franchise, LLC to the same extent as if it were named as Franchisee herein.

Date of Franchise Agreement: \_\_\_\_\_

Location of Coffeehouse: \_\_\_\_\_

\_\_\_\_\_  
Name of Corporation

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

In consideration of the execution of the above Agreement, Tom N Toms Franchise, LLC hereby consents to the above referred to assignment on this \_\_\_\_day of, 20\_\_.

Tom N Toms Franchise, LLC

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

**TOM N TOMS FRANCHISE, LLC**

**FRANCHISE AGREEMENT**

**EXHIBIT "G"**

**TELEPHONE NUMBER ASSIGNMENT AGREEMENT**  
**AND POWER OF ATTORNEY**

**FOR VALUE RECEIVED,** the undersigned ("Franchisee") irrevocably assigns the telephone listing and numbers stated below and any successor, changed or replacement number or numbers effective upon the date of termination of the Franchise Agreement described below to Tom N Toms Franchise, LLC upon the following terms:

1. This assignment is made under the terms of Tom N Toms Franchise Agreement dated \_\_\_\_\_, 20\_\_ authorizing Franchisee to do business as "Tom N Toms" or "Tom N Toms Coffee" Coffeehouse (the "Franchise Agreement") between Franchisor and Franchisee, which in part pertains to the telephone listing and numbers Franchisee uses in the operation of the Coffeehouse covered by the Franchise Agreement.

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

3. The telephone numbers and affiliated listings subject to this assignment are: (to be determined) and all numbers on the rotary series and all numbers Franchisee uses in the Coffeehouse in the future.

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

5. Franchisee appoints Franchisor as his/her attorney-in-fact to act in Franchisee's place for the purpose of assigning any telephone numbers covered by Paragraph 3 above to Franchisor or Franchisor's designees or transferees. Franchisee grants Franchisor full authority to act in any manner proper or necessary to exercise these powers, including full power of substitution and signing or completion of all documents

required or requested by any telephone company to transfer the numbers, and ratifies every act that Franchisor lawfully performs in exercising those powers.

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

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

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

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

Signed the \_\_\_\_ day of \_\_\_\_\_, 20\_\_

Franchisee

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

FRANCHISOR:

Signed and accepted as of the \_\_\_\_ day of \_\_\_\_\_, 20\_\_

Tom N Toms Franchise, LLC

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

**TOM N TOMS FRANCHISE, LLC**

**FRANCHISE AGREEMENT**

**EXHIBIT "H"**

**AUTHORIZATION TO HONOR CHARGES DRAWN BY AND PAYABLE TO  
TOM N TOMS FRANCHISE, LLC, INCLUDING CHECKS AND ELECTRONIC TRANSFERS**

Depositor hereby authorizes and requests \_\_\_\_\_ (the "Bank") to initiate debit and credit entries to Depositor's account indicated below drawn by and payable to the order of Tom N Toms Franchise, LLC (the "Company") in checks drawn on such account payable to the Company or by Electronic Funds Transfer, provided there are sufficient funds in said account to pay the amount upon presentation.

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

Bank Name: \_\_\_\_\_

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

Transit/ABA Number: \_\_\_\_\_

Account Number: \_\_\_\_\_

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

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

Name of Depositor: \_\_\_\_\_ (Please print Franchisee name)

\_\_\_\_\_  
Date Signed

\_\_\_\_\_  
Signature of Depositor

\_\_\_\_\_  
Signature of Depositor (in case more than 1 depositor)

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

**TOM N TOMS FRANCHISE, LLC**

**FRANCHISE AGREEMENT**

**EXHIBIT "I"**

**FRANCHISEE COMPLIANCE CERTIFICATION**

As you know, Tom N Toms Franchise, LLC (the Franchisor) and you are preparing to enter into a Franchise Agreement for the establishment and operation of a Tom N Toms Coffeehouse. The purpose of this Questionnaire is to determine whether any statements or promises were made to you by employees or authorized representatives of Franchisor, or by employees or authorized representatives of Franchisor's sales agents, that have not been authorized or that may be untrue, inaccurate or misleading.

1. Are you seeking to enter into the Franchise Agreement in connection with a purchase or transfer of an existing Tom N Toms Franchise, LLC from an existing Franchisee?

Yes \_\_\_\_\_ No \_\_\_\_\_

2. I had my first face-to-face meeting with a Franchisor representative on \_\_\_\_\_, 20\_\_\_\_.

3. Have you received and personally reviewed the Franchise Agreement and each Addendum and related agreements attached to it?

Yes \_\_\_\_\_ No \_\_\_\_\_

4. Do you understand all of the information contained in the Franchise Agreement, each Addendum and related agreements provided to you?

Yes \_\_\_\_\_ No \_\_\_\_\_

If no, what parts of the Franchise Agreement, any Addendum, and/or related agreement do you not understand? (Attach additional pages, if necessary.)

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5. Have you received and personally reviewed the Franchisor's Franchise Disclosure Document (FDD) that was provided to you?

Yes \_\_\_\_\_ No \_\_\_\_\_

6. Did you sign a receipt for the FDD indicating the date you received it?

Yes \_\_\_\_\_ No \_\_\_\_\_

7. Do you understand all of the information contained in the FDD and any state-specific Addendum to the FDD?

Yes \_\_\_\_\_ No \_\_\_\_\_

If No, what parts of the FDD and/or Addendum do you not understand?  
(Attach additional pages, if necessary.)

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8. Have you discussed the benefits and risks of establishing and operating a Tom N Toms Coffeehouse with an attorney, accountant, or other professional advisor?

Yes \_\_\_\_\_ No \_\_\_\_\_

If No, do you wish to have more time to do so?

Yes \_\_\_\_\_ No \_\_\_\_\_

9. Do you understand that the success or failure of your Tom N Toms Coffeehouse will depend in large part upon your skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease terms and other economic and business factors?

Yes \_\_\_\_\_ No \_\_\_\_\_

10. Has any employee or sales agent of Franchisor made any statement or promise concerning the revenues, project cost, project cost, profits or operating costs of a Tom N Toms Coffeehouse operated by the Franchisor or its Franchisees that is contrary to the information contained in the FDD?

Yes \_\_\_\_\_ No \_\_\_\_\_

11. Has any employee or sales agent of Franchisor made any statement or promise regarding the amount of money you may earn in operating the franchised business that is contrary to the information contained in the FDD?

Yes \_\_\_\_\_ No \_\_\_\_\_

12. Has any employee or sales agent of Franchisor made any statement or promise concerning the total amount of revenue the Tom N Toms Coffeehouse will generate that is contrary to the information contained in the FDD?

Yes \_\_\_\_\_ No \_\_\_\_\_

13. Has any employee or sales agent of Franchisor made any statement or promise regarding the costs you may incur in operating the Tom N Toms Coffeehouse that is contrary to or different from, the information contained in the FDD?

Yes \_\_\_\_\_ No \_\_\_\_\_

14. Has any employee or sales agent of Franchisor made any statement or promise concerning the likelihood of success that you should or might expect to achieve from operating a Tom N Toms Coffeehouse?

Yes \_\_\_\_\_ No \_\_\_\_\_

15. Has any employee or sales agent of Franchisor made any statement, promise or agreement concerning the advertising, marketing, training, support service or assistance that the Franchisor will furnish to you that is contrary to, or different from, the information contained in the FDD?

Yes \_\_\_\_\_ No \_\_\_\_\_

16. Have you entered into any binding agreement with Franchisor concerning the purchase of this franchise prior to today?

Yes \_\_\_\_\_ No \_\_\_\_\_

17. Have you paid any money to Franchisor concerning the purchase of this franchise prior to today?

Yes \_\_\_\_\_ No \_\_\_\_\_

If you have answered Yes to any one of questions 10-17, please provide a full explanation of each Yes answer in the following blank lines. (Attach additional pages, if necessary, and refer to them below.) If you have answered No to each of questions 10-17, please leave the following lines blank.

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I signed the Franchise Agreement and Addenda (if any) on \_\_\_\_\_, 20\_\_\_\_, and acknowledge that no Agreement or Addendum is effective until signed and dated by the Franchisor.

Please understand that your responses to these questions are important to us and that we will rely on them. By signing this Questionnaire, you are representing that you have responded truthfully to the above questions.

FRANCHISEE APPLICANT

DATE:

\_\_\_\_\_

\_\_\_\_\_

**EXHIBIT D**

**TOM N TOMS COFFEE  
AREA DEVELOPMENT AGREEMENT**

**TOM N TOMS COFFEE**

**AREA DEVELOPMENT AGREEMENT**

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**EXHIBITS:**

- "A" Minimum Performance Schedule
- "B" Development Area
- "C" Existing Coffeehouses In Development Area
- "D" Certification of Area Developer

**TOM N TOMS FRANCHISE, LLC**

**AREA DEVELOPMENT AGREEMENT**

**THIS AREA DEVELOPMENT AGREEMENT** ("Agreement") is made and entered into the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_, between Tom N Toms Franchise, LLC, a California corporation whose principal address is 3435 Wilshire Blvd., Suite 2090, Los Angeles, CA 90010 ("Franchisor"), and \_\_\_\_\_ whose principal address is \_\_\_\_\_

\_\_\_\_\_  
("Area Developer").

**W I T N E S S E T H:**

**WHEREAS**, Franchisor is engaged in the business of operating and franchising a specialty coffeehouse known as "Tom N Toms" ("Tom N Toms Coffeehouse" or "Coffeehouse"); and

**WHEREAS**, Franchisor has developed a business plan and method in connection with the operation of Tom N Toms Coffeehouses featuring a specialized menu featuring premium coffee products and complementary food and beverages ("Menu Items") and provide carry-out and on-premises dining services utilizing certain distinguishing characteristics include distinctive exterior and interior design, décor, color scheme and furnishings; uniform standards, specifications and procedures for operations; quality and uniformity of products and services offered; procedures for management and inventory control; training and assistance; and advertising and promotional programs ("System"); all of which may be changed, improved and further developed from time to time by Franchisor; and

**WHEREAS**, the distinguishing characteristics of the System include, but are not limited to, the name and mark "Tom N Toms" or "Tom N Toms Coffee" (the "Mark"), uniform formats, designs, systems, methods, specifications, standards and procedures, all of which may be improved, further developed or otherwise modified from time to time by Franchisor; and

**WHEREAS**, the reputation and goodwill with the public with respect to the quality of products and services available at Tom N Toms Coffeehouses have been and continue to be of major benefit to Franchisor and its franchisees; and

**WHEREAS**, Area Developer recognizes the benefits to be derived from being identified with and being an area developer of Franchisor and being able to utilize the System and the Marks which Franchisor makes available to its Area Developers; and

**WHEREAS,** Area Developer wishes to obtain certain development rights to open and operate Coffeehouses operating under the Marks under the System within the territory described in this Area Development Agreement.

**NOW, THEREFORE,** the parties, in consideration of the undertakings and commitments of each party to the other party set forth herein, hereby agree as follows:

## **SECTION I** **GRANT**

1.1 Franchisor hereby grants to Area Developer, pursuant to the terms and conditions of this Area Development Agreement, certain development rights ("Development Rights") to establish and operate \_\_\_\_\_ ( ) franchised Coffeehouses, and to use the System solely in connection therewith, at specific locations to be designated in separate Franchise Agreements executed as provided in Section 3.1 hereof, and pursuant to the schedule set forth in Exhibit "A" of this Agreement ("Minimum Performance Schedule"). Each Coffeehouse developed hereunder shall be located in the area described in Exhibit "B" of this Agreement ("Development Area").

1.2 Each Coffeehouse for which an Area Development Right is granted hereunder shall be established and operated pursuant to a Franchise Agreement to be entered into between Area Developer and Franchisor in accordance with Section 3.1 hereof.

1.3 Except as otherwise provided in this Agreement, Franchisor shall not establish, nor franchise anyone other than Area Developer to establish, a Coffeehouse in the Development Area during the term of this Agreement, provided Area Developer is not in default hereunder.

1.4 This Agreement is not a Franchise Agreement and does not grant to Area Developer any right to use the Marks or System.

1.5 Area Developer shall have no right under this Agreement to franchise or license others under the Marks or System.

## **SECTION II** **DEVELOPMENT FEE**

In consideration of the development rights granted herein, Area Developer shall pay to Franchisor a Development Fee of Thirty Thousand Dollars (\$30,000.00) for the first Coffeehouse plus Fifteen Thousand Dollars (\$15,000.00) for each additional Coffeehouse to be developed.

The Development Fee shall be fully earned by Franchisor upon execution of this Agreement, and shall be for administrative and other expenses incurred by Franchisor and for the development opportunities

lost or deferred as a result of the Development Rights granted Area Developer herein.

**SECTION III**  
**SCHEDULE AND MANNER FOR EXERCISING DEVELOPMENT RIGHTS**

3.1 In the event Area Developer finds a location for a Coffeehouse, then in such event, Area Developer shall submit to Franchisor for its evaluation and approval, in the form specified by Franchisor, a description of the site, the terms of the lease or purchase and such other information and materials as Franchisor may reasonably require. Franchisor shall have fifteen (15) business days after receipt of such information and materials from Area Developer to approve or disapprove the site in its sole discretion. In the event Franchisor does not disapprove the site by submitting written notice to Area Developer within fifteen (15) days, such site will be deemed approved by Franchisor. The Area Developer will then be presented with the then-current Franchise Agreement for execution.

3.2 Recognizing that time is of the essence, Area Developer agrees to exercise each of the Development Rights granted hereunder in the manner specified herein, and to satisfy the Minimum Performance Schedule in a timely manner. Failure by Area Developer to adhere to the Minimum Performance Schedule shall constitute a default under this Agreement as provided in Section 9.1 hereof.

3.3 Area Developer shall exercise each Area Development Right granted herein only by executing a Franchise Agreement for each Coffeehouse at a site approved by Franchisor in the Development Area as hereinafter provided within ten (10) days after receipt of said Franchise Agreement from Franchisor for the approved site and return same to Franchisor for its execution. The Franchise Agreement for the first Area Development Right exercised hereunder shall be the then-current form of Franchise Agreement. The Franchise Agreement for each additional Area Development Right exercised hereunder shall be the then-current Franchise Agreement, except that the Royalty and Advertising Fees shall not increase and shall be the same as set forth in the first Franchise Agreement executed, subject to any non-material changes therein which are required to be made by changes in any applicable law, regulation or ordinance in effect from time to time. In the event Franchisor does not receive the properly executed Franchise Agreement with the appropriate number of copies within said ten (10) days from delivery thereof to Area Developer, Franchisor approval of the site shall be void and Area Developer shall have no rights with respect to said site. The Initial Franchise Fees to be paid by Area Developer shall be Thirty Thousand Dollars (\$30,000.00) for the first Coffeehouse and Fifteen Thousand Dollars (\$15,000.00) for each of the total remaining Coffeehouses to be developed under this Agreement, which shall total the Development Fee to be paid by Area Developer. The Initial Franchise Fee for the first Coffeehouse has been paid in full in the Development Fee; the balance of the

Initial Franchise Fee for each additional Coffeehouse to be developed shall be paid by Area Developer on the earlier of (i) the date a lease or purchase agreement for the Coffeehouse is executed or (ii) ninety (90) days prior to the scheduled opening date for said Coffeehouse, whichever date is earlier.

3.4 Area Developer acknowledges that the approval of a particular site for a Coffeehouse by Franchisor shall not be deemed to be an assurance or guaranty that the Coffeehouse will operate successfully or at a profit from such site.

3.5 Area Developer shall be required to execute each Franchise Agreement for each Coffeehouse to be opened pursuant to said Franchise Agreement. In no event shall Area Developer relinquish control over each entity operating each Coffeehouse.

#### **SECTION IV** **DEVELOPMENT RIGHTS AND OBLIGATIONS**

4.1 Subject to the provisions of this Agreement, Franchisor grants to Area Developer the right to develop Coffeehouses within the Development Area ("Development Rights").

4.2 Provided Area Developer is in full compliance with all the terms and conditions of this Agreement, including without limitation Area Developer's development obligations described in Section 3.2, and Area Developer is in full compliance with all of its obligations under all franchise agreements executed pursuant to this Agreement, then during the term of this Agreement neither Franchisor nor any of its affiliates will develop or operate or grant franchises for the development or operation of Coffeehouses within the Development Area, except the franchises that are granted to Area Developer pursuant to this Agreement and except as otherwise expressly provided in this Agreement.

4.3 Upon the termination or expiration of this Agreement, Franchisor and its affiliates shall have the right to develop and operate, and to grant to others development rights and franchises to develop and operate, Coffeehouses within the Development Area subject only to the territorial rights granted to Area Developer with respect to Coffeehouses operated by Area Developer pursuant to the Franchise Agreements, if applicable.

4.4 Except as expressly limited by Section 3.2 above, Franchisor and its affiliates retain all rights with respect to Coffeehouses, the Marks and the sale of any goods and services, anywhere in the world, including, without limitation, the right:

4.4.1 to produce, offer and sell and to grant others the right to produce, offer and sell the products and any other goods and services through similar or dissimilar channels of distribution both

within and outside the Development Area under trade and service marks other than the Marks and under any terms and conditions Franchisor deems appropriate;

4.4.2 to produce, offer and sell and grant others the right to produce, offer and sell the products and any other goods and services through dissimilar channels of distribution (other than through a retail coffeehouse) both within and outside the Development Area under the Marks and under any terms and conditions Franchisor deems appropriate; and

4.4.3 to operate and to grant others the right to operate Coffeehouses located outside the Development Area under any terms and conditions Franchisor deems appropriate and regardless of proximity to a Coffeehouse or Development Area.

## **SECTION V**

### **RENEWAL**

This Agreement shall not be subject to renewal.

## **SECTION VI**

### **TERM**

Unless sooner terminated in accordance with the terms of this Agreement, the term of this Agreement and all Development Rights granted hereunder shall expire on the date the last Coffeehouse is opened pursuant to the Minimum Performance Schedule set forth in Exhibit "A".

## **SECTION VII**

### **OBLIGATIONS OF AREA DEVELOPER**

7.1 Area Developer acknowledges and agrees that:

7.1.1 Except as otherwise provided herein, this Agreement includes only the right to select sites for the establishment of Coffeehouses and to submit the same to Franchisor for its approval in accordance with the terms of this Agreement. This Agreement does not include the grant of a license by Franchisor to Area Developer of any rights to use the Marks, the System, or to open or operate any Coffeehouses within the Development Area. Area Developer shall obtain the license to use such additional rights at each Coffeehouse upon the execution of each Franchise Agreement by both Area Developer and Franchisor and only in accordance with the terms of each Franchise Agreement.

7.1.2 The Development Rights granted hereunder are personal to Area Developer and cannot be sold, assigned, transferred or

encumbered, in whole or in part, except as set forth in Section XI hereof.

7.1.3 Except as provided in Sections 7.1.1 and 7.1.2 hereof, the Development Rights granted hereunder are non-exclusive, and Franchisor retains the right, in its sole discretion:

(a) To continue to construct and operate other Coffeehouses and to use the System and the Marks at any location outside the Development Area, and to license others to do so.

(b) To develop, use and franchise the rights to any trade names, trademarks, service marks, trade symbols, emblems, signs, slogans, insignia, or copyrights not designated by Franchisor as Marks for use with different franchise systems for the sale of the different products or services not in connection with the System at any location, on such terms and conditions as Franchisor may deem advisable and without granting Area Developer any rights therein.

(c) To develop, merchandise, sell and license others to sell any of Franchisor's products, proprietary or otherwise, presently existing or to be developed in the future, to the public through supermarkets, groceries and other non-Coffeehouse outside of the Development Area and to use the Marks in connection therewith.

(d) To promote or conduct special events within the Development Area, provided, however, that the opportunity to conduct each special event shall first be offered to Area Developer in accordance with the terms of any valid and effective Franchise Agreement.

7.1.4 Area Developer has sole responsibility for the performance of all obligations arising out of the operation of his business pursuant to this Agreement, including, but not limited to, the payment when due of any and all taxes levied or assessed by reason of such operation.

7.1.5 In all public records, in its relationship with other persons, and in any documents, Area Developer shall indicate clearly the independent ownership of Area Developer's business and that the operations of said business are separate and distinct from the operation of Franchisor's business.

7.1.6 Area Developer shall at all times preserve in confidence any and all materials and information furnished or disclosed to Area Developer by Franchisor, and Area Developer shall disclose such information or materials only to such of the Area Developer's employees or agents who must have access to it in connection with their employment. Area Developer shall not at any time, without Franchisor's prior written consent, copy, duplicate, record or otherwise reproduce such materials or information, in whole

or in part, nor otherwise make the same available to any unauthorized person.

7.1.7 Area Developer shall comply with all requirements of federal, state and local laws, rules and regulations.

7.1.8 Area Developer shall at no time have the right to sub-franchise any of its Development Rights hereunder.

## **SECTION VIII**

### **SERVICES OF FRANCHISOR**

Franchisor shall, at its expense, provide the following services:

8.1 Review Area Developer's site selection for conformity to Franchisor standards and criteria for selection and acquisition of sites upon Franchisor's receipt of Area Developer's written request for approval thereof.

8.2 Provide Area Developer with standard specifications and layouts for the layout, interior and exterior design, improvements, equipment, furnishings, decor and signs identified with the Coffeehouses as Franchisor makes available to all area developers and franchisees from time to time.

8.3 Review Area Developer's site plan and final build-out plans and specifications for conformity to the construction standards and specifications of the System, upon Franchisor's receipt of Area Developer's written request for approval thereof.

8.4 Conduct such on-site evaluation as Franchisor may, in its sole discretion, deem advisable as part of its evaluation of Area Developer's request for site approval, provided however, that Franchisor shall not be required to provide such on-site evaluation for any proposed site prior to Franchisor receipt of a description of such proposed site and other information and evidence satisfactory to Franchisor. If deemed appropriate and if the site requires inspection, Franchisor may conduct an on-site inspection.

8.5 Provide such other resources and assistance as may hereafter be developed and offered by Franchisor to its other area developers.

## **SECTION IX**

### **DEFAULT AND TERMINATION**

9.1 The occurrence of any of the following events of default shall constitute good cause for Franchisor, at its option and without prejudice to any other rights or remedies provided for hereunder or by law or equity, to terminate this Agreement:

9.1.1 If Area Developer shall, in any respect, fail to meet the Minimum Performance Schedule.

9.1.2 If Area Developer shall use the System or Marks, or any other names, marks, systems, insignia, symbols or rights which are the property of Franchisor except pursuant to, and in accordance with, a valid and effective Franchise Agreement.

9.1.3 If Area Developer, or persons controlling, controlled by or under common control with Area Developer, shall have any interest, direct or indirect, in the ownership or operation of any store engaged in the sale of products similar to those permitted to be sold by Area Developer within the Development Area or in any coffeehouse which looks like, copies or imitates the Coffeehouse or operates in a manner tending to have such effect other than pursuant to a valid and effective Franchise Agreement.

9.1.4 If Area Developer shall fail to remit to Franchisor any payments due under this Agreement.

9.1.5 If Area Developer shall begin work upon any Coffeehouse at any site unless all the conditions set forth in Section III hereof have been met.

9.1.6 If Area Developer shall purport to effect any assignment other than in accordance with Section XI hereof.

9.1.7 Except as provided in Section XI hereof, if Area Developer attempts to sell, assign, transfer or encumber this Agreement without Franchisor's prior written approval.

9.1.8 If Area Developer makes, or has made, any material misrepresentation to Franchisor in connection with obtaining this Area Development Agreement, any site approval hereunder, or any Franchise Agreement.

9.1.9 If Area Developer fails to obtain Franchisor's prior written approval or consent, including but not limited to site approval or site plan approval, as expressly required by this Agreement.

9.1.10 If Area Developer defaults in the performance of any other obligation under this Agreement.

9.1.11 If Area Developer defaults in the performance of any obligation under any Franchise Agreement with Franchisor, provided such default results in the termination of the Franchise Agreement.

9.1.12 If Area Developer suffers a violation of any law, ordinance, rule or regulation of a governmental agency in connection with the operation of the Coffeehouse, and permits the same to go

uncorrected after notification thereof, unless there is a bona fide dispute as to the violation or legality of such law, ordinance, rule or regulation, and Area Developer promptly resorts to courts or forums of appropriate jurisdiction to contest such violation or legality.

9.1.13 If Area Developer or a shareholder of Area Developer owning twenty-five percent (25%) or more of Area Developer's voting stock is convicted in a court of competent jurisdiction of an indictable offense punishable by a term of imprisonment in excess of one (1) year.

9.1.14 If Area Developer, or any person controlling, controlled by or under common control with Area Developer, shall become insolvent by reason of inability to pay their debts as they mature; shall be adjudicated a bankrupt; shall file or have filed against any of them a petition in bankruptcy, reorganization or similar proceeding under the bankruptcy laws of the United States; or if a receiver, permanent or temporary, of the business, assets or property of Area Developer or any such person, or any part thereof, is appointed by a court of competent authority; or if Area Developer or any such person requests the appointment of a receiver or makes a general assignment for the benefit of creditors or if a final judgment against Area Developer or any such person in the amount of Ten Thousand Dollars (\$10,000) or more remains unsatisfied or recorded for sixty (60) days or longer; or if the bank accounts, property or receivables of Area Developer or any such person are attached and such attachment proceedings are not dismissed within a sixty (60) day period; or if execution is levied against the business or property of Area Developer or suit to foreclose any lien or mortgage against any of the Coffeehouses, the premises thereof or equipment thereon is instituted and not dismissed within thirty (30) days.

9.2 Upon occurrence of any of the events set forth in Section 9.1, Franchisor may, without prejudice to any other rights or remedies contained in this Agreement or provided by law or equity, terminate this Agreement. Such termination shall be effective thirty (30) days after written notice (or such other notice as may be required by applicable state law) is given by Franchisor to Area Developer of any of the events set forth in this Section IX, if such defaults are not cured within such period. However, termination shall be effective immediately, without notice and without the necessity of further action by Franchisor, upon occurrence of any of the events specified in this Section IX, except where prohibited by any applicable state or federal law, whereupon this Agreement shall be terminated in accordance with the provisions of any such law.

**SECTION X**  
**AREA DEVELOPER'S OBLIGATIONS FOLLOWING TERMINATION**

10.1 Upon termination of this Agreement becoming effective for any reason, or upon expiration of the term hereof, Area Developer agrees as follows:

10.1.1 To cease immediately any attempts to select sites on which to establish Coffeehouses.

10.1.2 To cease immediately to hold itself out in any way as an Area Developer of Franchisor or to do anything which would indicate a relationship between it and Franchisor.

10.2 Termination of this Agreement shall not affect the rights of Area Developer to operate Coffeehouses in accordance with the terms of any Franchise Agreement with Franchisor, executed prior to the termination of this Agreement, until and unless such Franchise Agreement, or any of them, are terminated in accordance with their terms, renewed or expired.

10.3 No right or remedy herein conferred upon or reserved to Franchisor is exclusive of any other right or remedy provided or permitted by law or in equity.

**SECTION XI**  
**TRANSFER OF INTEREST**

11.1 This Agreement is personal to Area Developer, and Area Developer shall neither sell, assign, transfer nor encumber this Agreement, the Development Rights, or any other interest hereunder, nor suffer or permit any such assignment, transfer or encumbrance to occur directly, indirectly or contingently by agreement or by operation of law without the prior written consent of Franchisor. Area Developer understands that this Agreement may not be pledged, mortgaged, hypothecated, given as security for an obligation or in any manner encumbered. The assignment or transfer of any interest, except in accordance with this Paragraph shall constitute a material breach of this Agreement.

11.2 In the event that Area Developer is a corporation or desires to conduct business in a corporate capacity, said corporation or assignment to a corporation must receive the prior written approval of Franchisor and Area Developer agrees to comply with the provisions hereinafter specified, including without limitation restrictions on the number of shareholders of the corporation or assignee corporation and, where appropriate in Franchisor's discretion, personal guarantees by any shareholder having at least 5% ownership interest in such corporation of all of the obligations of said corporation or assignee corporation to Franchisor and other parties designated by Franchisor. The corporation or assignee corporation shall not engage in any

business activities other than those directly related to the operation of the Coffeehouse(s) pursuant to the terms and conditions of the Franchise Agreements with Franchisor, and all assets related to the operation of the Coffeehouse(s) shall be held by the corporation or assignee corporation. There shall be no transfer fee charged by Franchisor if such assignment to a corporation is made within ninety (90) days after the execution of this Agreement.

The references in Sections 11.2, 11.3 and 11.4 herein to "Corporation," "assignee corporation," "stock," "by-laws," "shareholders," etc., shall be deemed to include and permit similar transfers to other business entities such as a limited liability company, limited partnership or business trust, as applicable, in which case the language of such entity shall be understood (e.g. in the case of a limited liability company ("LLC" or "Company," "members," "membership interests," "operating agreement," etc.), unless the context would not so permit such substitution.

11.3 If Area Developer is a corporation or if Area Developer's rights hereunder are assigned to a corporation, the Area Developer, or those individuals disclosed on Exhibit "B" attached hereto shall be the legal and beneficial owner of and shall act as such corporation's principal officer. The assignment to a corporation will not relieve Area Developer of personal liability to Franchisor for performance of any of the obligations under this Agreement. Any subsequent transfer of voting rights of the stock of the corporation or assignee corporation, and any transfer or issuance of shares of the corporation or assignee corporation shall be subject to Franchisor prior written approval. Franchisor agrees that it will not unreasonably restrict the issuance or transfer of shares of stock, provided that Area Developer complies with the provisions of this Section XI, and provided that in no event shall any share of stock of such corporation or assignee corporation be sold, transferred or assigned to a business competitor of Franchisor. The articles of incorporation and by-laws of the corporation or assignee corporation shall reflect that the issuance and transfer of shares of stock are restricted, and all stock certificates shall bear the following legend, which shall be printed legibly and conspicuously on each stock certificate:

**"The transfer of this stock is subject to the terms and conditions of an Area Development Agreement with Franchisor, dated \_\_\_\_\_. Reference is made to said Area Development Agreement and related Franchise Agreements and to restrictive provisions of the charter and by-laws of this corporation."**

11.4 The corporation or assignee corporation's corporate records shall indicate that a stop transfer order shall be in effect against the transfer of any stock, except for transfers permitted by this Section XI. In addition to the foregoing, the stock of such corporation or assignee corporation shall not be publicly sold or

traded without the prior express written consent of Franchisor, which shall be given at the sole discretion of Franchisor. In the event that Franchisor approves a public offering of Area Developer, Area Developer shall present the offering circular or prospectus to Franchisor for its review within a reasonable time prior to such offering becoming effective. In no event shall Area Developer offer its securities by use of the name "Tom N Toms" or any name deceptively similar thereto, however, Area Developer may make appropriate reference to the fact the Area Developer has a Development Agreement with Franchisor; nor shall Area Developer relinquish control of the new public company. Area Developer agrees to indemnify and hold Franchisor harmless from and against any claims, suits, actions or otherwise which arise out of or from such public offering.

11.5 In the event of the death, disability or permanent incapacity of Area Developer, Franchisor shall consent to the transfer of all of the interest of Area Developer to Area Developer's spouse, heirs or relatives, by blood or marriage, or if this Agreement was originally executed by more than one party, then to the remaining party who originally executed this Agreement, whether such transfer is made by Area Developer's Last Will and Testament or by operation of law. In the event that Area Developer's heirs do not obtain the consent of Franchisor as prescribed herein, the personal representative of Area Developer shall have a reasonable time to dispose of Area Developer's interest hereunder, which disposition shall be subject to all the terms and conditions for transfers under this Agreement.

11.6 Area Developer has represented to Franchisor that he is entering into this Area Development Agreement with the intention of complying with its terms and conditions and not for the purpose of resale of the Development Rights hereunder. Therefore, Area Developer agrees that any attempt to assign this Agreement, without Franchisor's prior written approval except pursuant to Sections 11.2 and 11.3 hereof, shall be deemed to be an event of default.

11.7 If Area Developer receives from a third person and desires to accept a bona fide written offer to purchase its business, Development Rights and interests, Franchisor shall have the option, exercisable within thirty (30) days after receipt of written notice setting forth the name and address of the prospective purchaser, the price and terms of such offer, and a copy of such offer and the other information set forth in this Section 11.7, to purchase such business, Development Rights and interests, including Area Developer's right to develop sites within the Development Area, on the same terms and conditions as offered by said third party. In order that Franchisor may have information sufficient to enable it to determine whether to exercise its option, Franchisor may require Area Developer to deliver to Franchisor certified financial statements as of the end of Area Developer's most recent fiscal year and such other information about the business and operations of Area Developer as Franchisor may request. If Franchisor declines, or does not accept the offer in

writing within thirty (30) days, Area Developer may, within thirty (30) days from the expiration of the option period, sell, assign and transfer its business, Development Rights and interest to said third party, provided Franchisor has consented to such transfer as required by this Section XI. Any material change in the terms of the offer prior to closing of the sale to such third party shall constitute a new offer, subject to the same rights of first refusal by Franchisor or its nominee, as in the case of an initial offer. Failure by Franchisor to exercise the option afforded by this Section 11.7 shall not constitute a waiver of any other provision of this Agreement, including all of the requirements of this Section with respect to the proposed transfer.

11.8 Area Developer acknowledges and agrees that the restrictions on transfer imposed herein are reasonable and are necessary to protect the Development Rights, and the System and the Marks, as well as Franchisor reputation and image, and are for the protection of Franchisor, Area Developer and other Area Developers. Any assignment or transfer permitted by this Section XI shall not be effective until Franchisor receives a completely executed copy of all transfer documents, and Franchisor consents in writing thereto.

11.9 Franchisor agrees not to unreasonably withhold its consent to a sale, assignment or transfer by Area Developer hereunder. Consent to such transfer otherwise permitted or permissible as reasonable may be refused unless:

11.9.1 All obligations of the Area Developer created by this Agreement, all other franchise documents, including all Franchise Agreements, and the relationship created hereunder are assumed by the transferee.

11.9.2 All ascertained or liquidated debts of Area Developer to Franchisor or its affiliated or subsidiary corporations are paid.

11.9.3 Area Developer is not in default hereunder.

11.9.4 Franchisor is reasonably satisfied that the transferee meets all of the requirements of Franchisor for new area developers, including but not limited to, good reputation and character, business acumen, operational ability, management skills, financial strength and other business considerations.

11.9.5 Transferee executes or, in appropriate circumstances, causes all necessary parties to execute, Franchisor's standard form of Area Development Agreement, Franchise Agreements for all Coffeehouses open or under construction hereunder, and such other then-current ancillary agreements, including personal guarantees, being required by Franchisor of new area developers on the date of transfer.

11.9.6 Area Developer executes a general release under seal, in a form satisfactory to Franchisor, of any and all claims against Franchisor, its officers, directors, employees and principal stockholders of any and all claims and causes of action that he may have against Franchisor or any subsidiary or affiliated corporations in any way relating to this Agreement or the performance or non-performance thereof by Franchisor.

11.9.7 Area Developer or transferee pays to Franchisor a transfer fee in an amount equal to twenty-five percent (25%) of the Development Fee paid by Area Developer to cover Franchisor's reasonable costs in effecting the transfer and in providing training and other initial assistance to transferee.

11.10 Upon the death or mental incapacity of any person with an interest of more than twenty-five percent (25%) in this Agreement or in Area Developer, the executor, administrator or personal representative of such person shall transfer his interest to a third party approved by Franchisor within twelve (12) months. Such transfers, including, without limitation, transfers by devise or inheritance, shall be subject to the same conditions as any inter vivos transfer. However, in the case of transfer by devise or inheritance, if the heirs or beneficiaries of any such person are unable to meet the conditions set forth in Section 11.1 hereof, the personal representative of the deceased shall have a reasonable time, not to exceed twelve (12) months from the date said personal representative is appointed, to dispose of the deceased's interest in Area Developer or in the Development Rights, which disposition shall be subject to all the terms and conditions for transfers contained in this Agreement. It is understood and agreed, however, that notwithstanding the foregoing, the Minimum Performance Schedule shall be complied with as though no such death or mental incapacity had occurred. In the event the interest described above is not disposed of within such time, Franchisor shall have the right to terminate this Agreement, provided such termination had not previously occurred for failure to perform pursuant to the Minimum Performance Schedule, upon ninety (90) days' notice to Area Developer's representative, or Franchisor shall have the right to re-purchase same at the same price being sought by the Area Developer's representative.

11.11 Franchisor's consent to a transfer of any interest in Area Developer or in the Development Rights pursuant to this Section shall not constitute a waiver of any claims it may have against the transferring party, nor shall it be deemed a waiver of Franchisor right to demand exact compliance with any of the terms of this Agreement by the transferee.

11.12 Franchisor shall have the right, without the need for Area Developer's consent, to assign, transfer or sell its rights under this Agreement to any person, partnership, corporation or other legal entity provided that the transferee agrees in writing to assume all obligations undertaken by Franchisor herein and Area Developer

receives a statement from both Franchisor and its transferee to that effect. Upon such assignment and assumption, Franchisor shall be under no further obligation hereunder, except for accrued liabilities, if any. Area Developer further agrees and affirms that Franchisor may go public; may engage in a private placement of some or all of its securities; may merge, acquire other corporations, or be acquired by another corporation; and/or may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring. With regard to any of the above sales, assignments and dispositions, Area Developer expressly and specifically waives any claims, demands or damages arising from or related to the loss of Franchisor name, Marks (or any variation thereof) and System and/or the loss of association with or identification of Franchisor as Franchisor under this Agreement. Area Developer specifically waives any and all other claims, demands or damages arising from or related to the foregoing merger, acquisition and other business combination activities including, without limitation, any claim of divided loyalty, breach of fiduciary duty, fraud, breach of contract or breach of the implied covenant of good faith and fair dealing.

If Franchisor assigns its rights in this Agreement, nothing herein shall be deemed to require Franchisor to remain in the "Tom N Toms" business or to offer or sell any products or services to Area Developer.

11.13 This Agreement shall inure to the benefit of Franchisor, its successors and assigns, and Franchisor shall have the right to transfer or assign all or any part of its interest herein to any person or legal entity, provided such transferee agrees to perform all of Franchisor obligations hereunder.

## **SECTION XII**

### **COVENANTS**

12.1 Area Developer specifically acknowledges that, pursuant to this Agreement, Area Developer will receive valuable training and confidential information, including, without limitation, secret recipes, information regarding the marketing methods and techniques of Franchisor and the System. Area Developer covenants that during the term of this Agreement, except as otherwise approved in writing by Franchisor, Area Developer and persons controlling, controlled by or under common control with Area Developer, shall not, either directly or indirectly, for himself, or through, on behalf of or in conjunction with any person, persons or legal entity:

12.1.1 Divert or attempt to divert any business or client of the Franchised Business 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 Marks and the System.

12.1.2       Employ or seek to employ any person who is at the time employed by Franchisor or by any other franchisee or Area Developer of Franchisor, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat.

12.1.3       Own, maintain, advise, help, invest in, make loans to, be employed by, engage in or have any interest in any coffeehouse or food service business other than the Franchised Business (including any business operated by Area Developer prior to entry into this Agreement) specializing, in whole or in part, in the sale of the proprietary products for on-premises and carry-out consumption and/or operating a similar coffeehouse concept selling the proprietary products sold by Franchisor or any of its franchisees or which Area Developer may be authorized to offer in connection with the Franchised Business.

12.2 Area Developer covenants that, except as otherwise approved in writing by Franchisor, Area Developer shall not, for a continuous and uninterrupted period commencing upon the expiration or termination of this Agreement, and continuing for two (2) years thereafter (and, in case of any violation of this covenant, for two (2) years after the violation ceases), either directly or indirectly, for himself or herself, or through, on behalf of or in conjunction with any person, persons, partnership or corporation, own, maintain, advise, help, invest in, make loans to, be employed by, engage in or have any interest in any business other than the Franchised Business specializing, in whole or in part, in providing the sale of the proprietary beverage/food items for on-premises and carry-out consumption and/or operating a similar coffeehouse concept selling those Menu Items sold by Franchisor, its franchisees or any other type of service which Area Developer may be authorized to offer in connection with the Franchised Business, which is located:

12.2.1       Within the Development Area; or

12.2.2       Within a radius of ten (10) miles of the location of any Coffeehouse; or

12.2.3       Within a radius of ten (10) miles of the location of any other business using the System, whether franchised or owned by Franchisor.

12.3 Subsections 12.1.3 and 12.2 of this Section shall not apply to ownership by Area Developer of less than a five percent (5%) beneficial interest in the outstanding equity securities of any corporation or other entity which is registered under the Securities Exchange Act of 1934.

12.4 The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section XII is held unreasonable or unenforceable by a court or agency

having valid jurisdiction in any unappealed final decision to which Franchisor is a party, Area Developer expressly agrees to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section XII.

12.5 Area Developer understands and acknowledges that Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in Subsections 12.1 and 12.2 or any portion thereof, without Area Developer's consent, effective immediately upon receipt by Area Developer of written notice thereof, and Area Developer agrees that it shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Section XVI hereof.

12.6 Area Developer expressly agrees that the existence of any claim it may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Section XII.

12.7 Area Developer acknowledges that any failure to comply with the requirements of this Section XII would cause Franchisor irreparable injury for which no adequate remedy at law may be available, and Area Developer hereby accordingly consents to Franchisor seeking injunctive relief prohibiting any conduct by Area Developer in violation of the terms of this Section XII. Franchisor may further avail itself of any other legal or equitable rights and remedies which it may have under this Agreement or otherwise.

12.8 At Franchisor request, Area Developer shall require and obtain the execution of covenants similar to those set forth in this Section XII (including covenants applicable upon the termination of a person's relationship with Area Developer) from any or all of the following persons:

12.8.1 All Coffeehouse managers of Area Developer and any other personnel employed by Area Developer who have received training from Franchisor;

12.8.2 All officers, directors and holders of a beneficial interest of five percent (5%) or more of the securities of Area Developer and of any corporation directly or indirectly controlling Area Developer, if Area Developer is a corporation; and

12.8.3 The general partners and any limited partners (including any corporation, and the officers, directors and holders of a beneficial interest of five percent (5%) or more of the securities of any corporation which controls, directly or indirectly, any general or limited partner), if Area Developer is a partnership.

Each covenant required by this Subsection 12.8 shall be in a form satisfactory to Franchisor, including, without limitation, specific identification of Franchisor as a third party beneficiary of such covenants with the independent right to enforce them. Failure by Area Developer to obtain execution of a covenant required by this Subsection 12.8 shall constitute a default under Section IX hereof.

12.9 During the term of this Agreement, an officer or agent of Franchisor shall have the right to inspect any Coffeehouse in which Area Developer has an interest at reasonable times and during normal business hours to the extent reasonably necessary to determine whether the conditions of this Section XII are being satisfied. If, by reason of such inspections or otherwise, Franchisor has reason to believe that Area Developer is not in full compliance with the terms of this Section, Franchisor shall give notice of such default to Area Developer, specifying the nature of such default. If Area Developer denies that it is in default hereunder, as specified by Franchisor, it shall have the burden of establishing that such default does not exist and shall give notice to Franchisor of its position, within ten (10) days of receipt of the notice from Franchisor. Unless Area Developer so denies such default, it shall immediately take all steps to cure said default in a manner satisfactory to Franchisor.

### **SECTION XIII**

#### **NOTICES**

Any and all notices required or permitted under this Agreement shall be in writing and shall be personally delivered or mailed by certified or registered mail, return receipt requested, to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other party:

Notices to Franchisor:

Tom N Toms Franchise, LLC  
3435 Wilshire Blvd., Suite 2090  
Los Angeles, CA 90010  
Tel: 213 568-3577  
Fax: 213 568-3584  
Attention: President

Notices to the Area Developer:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Any notice by certified or registered mail shall be deemed to have been given at the date and time of mailing.

**SECTION XIV**  
**INDEPENDENT CONTRACTOR AND INDEMNIFICATION**

14.1 It is understood and agreed by the parties hereto that this Agreement does not create a fiduciary relationship between them, and that nothing in this Agreement is intended to constitute either party an agent, legal representative, subsidiary, joint venturer, partner, employee or servant of the other for any purpose whatsoever. Each party to this Agreement is an independent contractor, and neither shall be responsible for the debts or liabilities incurred by the other.

14.2 Area Developer shall hold itself out to the public to be an independent contractor operating pursuant to this Agreement. Area Developer agrees to take such actions as shall be necessary to that end.

14.3 Area Developer understands and agrees that nothing in this Agreement authorizes Area Developer to make any contract, agreement, warranty or representation on Franchisor's behalf, or to incur any debt or other obligation in Franchisor's name, and that Franchisor assumes no liability for, nor shall be deemed liable by reason of, any act or omission of Area Developer or any claim or judgment arising therefrom. Area Developer shall indemnify and hold Franchisor and Franchisor's officers, directors, and employees harmless against any and all such claims arising directly or indirectly from, as a result of, or in connection with Area Developer's activities hereunder, as well as the cost, including reasonable attorneys' fees, of defending against them, except that the foregoing shall not apply to infringement actions regarding the Marks which are caused solely by actions of Franchisor or actions caused by the negligent acts of Franchisor or its agents.

**SECTION XV**  
**APPROVALS**

15.1 Whenever this Agreement requires the prior approval or consent of Franchisor, Area Developer shall make a timely written request to Franchisor, and, except as otherwise provided herein, any approval or consent granted shall be in writing.

15.2 Franchisor makes no warranties or guarantees upon which Area Developer may rely, and assumes no liability or obligation to Area Developer or any third party to which it would not otherwise be subject, by providing any waiver, approval, advise, consent or services to Area Developer in connection with this Agreement, or by reason of any neglect, delay or denial of any request therefore.

**SECTION XVI**  
**NON-WAIVER**

No failure of Franchisor to exercise any power reserved to it under this Agreement or to insist upon compliance by Area Developer with any obligation or condition in this Agreement, and no custom or practice of the parties at variance with the terms hereof, shall constitute a waiver of Franchisor rights to demand exact compliance with the terms of this Agreement. Waiver by Franchisor of any particular default shall not affect or impair Franchisor's right with respect to any subsequent default of the same or of a different nature; nor shall any delay, forbearance or omission of Franchisor to exercise any power or right arising out of any breach or default by Area Developer of any of the terms, provisions or covenants of this Agreement affect or impair Franchisor's rights, nor shall such constitute a waiver by Franchisor of any rights hereunder or rights to declare any subsequent breach or default.

**SECTION XVII**  
**SEVERABILITY AND CONSTRUCTION**

17.1 Each covenant and provision of this Agreement shall be construed as independent of any other covenant or provision of this Agreement. The provisions of this Agreement shall be deemed severable.

17.2 If all or any portion of a covenant or provision of this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in a decision to which Franchisor is a party, Area Developer expressly agrees to be bound by any lesser covenant or provision imposing the maximum duty permitted by law which is subsumed within the terms of such covenant or provision, as if that lesser covenant or provision were separately stated in and made a part of this Agreement.

17.3 Nothing in this Agreement shall confer upon any person or legal entity other than Franchisor or Area Developer, and such of their respective successors and assigns as may be contemplated by Section XI hereof, any rights or remedies under or by reason of this Agreement.

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

17.5 All references herein to gender and number shall be construed to include such other gender and number as the context may require, and all acknowledgments, promises, covenants, agreements and obligations herein made or undertaken by Area Developer shall be deemed jointly and severally undertaken by all those executing this Agreement on behalf of Area Developer.

17.6 This Agreement may be executed in multiple counterparts, and each copy of executed Agreement shall be deemed an original.

**SECTION XVIII**  
**ENTIRE AGREEMENT - APPLICABLE LAW**

This Agreement, the documents referred to herein and the Exhibits attached hereto constitute the entire, full and complete agreement between Franchisor and Area Developer concerning the subject matter hereof and supersede any and all prior agreements. No amendment, change or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing. This Agreement shall be interpreted and construed under the laws of the State of California, and the parties hereto consent to irrevocably submit to the jurisdiction of all courts located within the State of California, County of Los Angeles. Nothing in this or in any related agreement, however, is intended to disclaim the representations made by Franchisor in the franchise disclosure document that is furnished by Franchisor to Franchisee.

**ARTICLE XIX**  
**ARBITRATION**

19.1 IN THE EVENT ANY PARTY IS REQUIRED TO EMPLOY LEGAL COUNSEL OR TO INCUR OTHER REASONABLE EXPENSES TO ENFORCE ANY OBLIGATION OF ANOTHER PARTY HEREUNDER, OR TO DEFEND AGAINST ANY CLAIM, DEMAND, ACTION, OR PROCEEDING BY REASON OF ANOTHER PARTY'S FAILURE TO PERFORM ANY OBLIGATION IMPOSED UPON SUCH PARTY BY THIS AGREEMENT, AND PROVIDED THAT LEGAL ACTION IS FILED BY OR AGAINST THE FIRST PARTY AND SUCH ACTION OR THE SETTLEMENT THEREOF ESTABLISHES THE OTHER PARTY'S DEFAULT HEREUNDER, THEN THE PREVAILING PARTY SHALL BE ENTITLED TO RECOVER FROM THE OTHER PARTY THE AMOUNT OF ALL REASONABLE ATTORNEYS' FEES OF SUCH COUNSEL AND ALL OTHER EXPENSES REASONABLY INCURRED IN ENFORCING SUCH OBLIGATION OR IN DEFENDING AGAINST SUCH CLAIM, DEMAND, ACTION, OR PROCEEDING, WHETHER INCURRED PRIOR TO OR IN PREPARATION FOR OR CONTEMPLATION OF THE FILING OF SUCH ACTION THEREAFTER. NOTHING CONTAINED IN THIS PARAGRAPH SHALL RELATE TO ARBITRATION PROCEEDINGS PURSUANT TO THIS AGREEMENT.

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

19.3 EACH PARTY SHALL SELECT ONE (1) ARBITRATOR (WHO SHALL NOT BE COUNSEL FOR THE PARTY), AND THE TWO (2) SO DESIGNATED SHALL SELECT

A THIRD ARBITRATOR. IF EITHER PARTY SHALL FAIL TO DESIGNATE AN ARBITRATOR WITHIN SEVEN (7) DAYS AFTER ARBITRATION IS REQUESTED, OR IF THE TWO ARBITRATORS SHALL FAIL TO SELECT A THIRD ARBITRATOR WITHIN FOURTEEN (14) DAYS AFTER ARBITRATION IS REQUESTED, THEN AN ARBITRATOR SHALL BE SELECTED BY THE AMERICAN ARBITRATION ASSOCIATION OR ANY SUCCESSOR THERETO UPON APPLICATION OF EITHER PARTY. JUDGMENT UPON ANY AWARD OF THE MAJORITY OF THE ARBITRATORS SHALL BE BINDING AND SHALL BE ENTERED IN A COURT OF COMPETENT JURISDICTION. THE AWARD OF THE ARBITRATORS MAY GRANT ANY RELIEF WHICH MIGHT BE GRANTED BY A COURT OF GENERAL JURISDICTION, INCLUDING, WITHOUT LIMITATION, BY REASON OF ENUMERATION, AWARD OF DAMAGES (BUT EXCLUDING INJUNCTIVE RELIEF), AND MAY, IN THE DISCRETION OF THE ARBITRATORS, ASSESS, IN ADDITION, THE COSTS OF ARBITRATION, INCLUDING THE REASONABLE FEES OF THE ARBITRATORS AND REASONABLE ATTORNEYS' FEES, AGAINST EITHER OR BOTH PARTIES, IN PROPORTIONS AS THE ARBITRATORS SHALL DETERMINE.

19.4 NOTHING HEREIN CONTAINED SHALL BAR THE RIGHT OF EITHER PARTY TO SEEK AND OBTAIN TEMPORARY AND PERMANENT INJUNCTIVE RELIEF FROM A COURT OF COMPETENT JURISDICTION CONSISTENT WITH ARTICLE XIX HEREOF IN ACCORDANCE WITH APPLICABLE LAW AGAINST THREATENED CONDUCT THAT WILL IN ALL PROBABILITY CAUSE LOSS OR DAMAGE TO AREA DEVELOPER OR COMPANY.

19.5 IT IS THE INTENT OF THE PARTIES THAT ANY ARBITRATION BETWEEN THE AREA DEVELOPER AND COMPANY REGARDING A CLAIM OF AREA DEVELOPER SHALL BE OF AREA DEVELOPER'S INDIVIDUAL CLAIM AND THAT NO SUCH CLAIM SUBJECT TO ARBITRATION SHALL BE ARBITRATED ON A CLASS-WIDE BASIS.

## **SECTION XX**

### **TIMELY PERFORMANCE**

Area Developer hereby acknowledges that its timely development of the Coffeehouses in the Development Area in accordance with the Minimum Performance Schedule is of material importance to Franchisor and Area Developer. Area Developer agrees, as a condition of the continuance of the rights granted hereunder, to develop and open Coffeehouses within the Development Area in accordance with the Minimum Performance Schedule, to operate such Coffeehouses pursuant to the terms of the Franchise Agreements and to maintain all such Coffeehouses in operation continuously. A failure or delay in performance by any party to this Development Agreement shall not be a default hereunder if such failure or delay arises out of or results from a Force Majeure, which for purposes of this Development Agreement shall be defined as fire, flood, earthquake or other natural disasters, or acts of a public enemy, war, rebellion or sabotage.

**SECTION XXI**  
**ACKNOWLEDGMENTS**

21.1 AREA DEVELOPER ACKNOWLEDGES THAT THE SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT INVOLVES SUBSTANTIAL BUSINESS RISKS AND WILL BE TOTALLY AND COMPLETELY DEPENDENT UPON THE ABILITY OF AREA DEVELOPER AS AN INDEPENDENT BUSINESS PERSON. FRANCHISOR EXPRESSLY DISCLAIMS THE MAKING OF, AND AREA DEVELOPER ACKNOWLEDGES NOT HAVING RECEIVED, ANY WARRANTY OR GUARANTEE, EXPRESS OR IMPLIED, AS TO THE POTENTIAL VOLUME, PROFITS OR SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT.

21.2 AREA DEVELOPER ACKNOWLEDGES HAVING RECEIVED, READ AND UNDERSTOOD THIS AGREEMENT, THE EXHIBITS ATTACHED HERETO AND AGREEMENTS RELATING HERETO, IF ANY, AND THE OFFERING CIRCULAR; AND FRANCHISOR HAS ACCORDED AREA DEVELOPER AMPLE TIME AND OPPORTUNITY TO CONSULT WITH ADVISORS OF AREA DEVELOPER'S OWN CHOOSING ABOUT THE POTENTIAL RISKS OF ENTERING INTO THIS AGREEMENT.

21.3 AREA DEVELOPER AND EACH OF ITS PRINCIPALS, IF A CORPORATION, EXPRESSLY ACKNOWLEDGE THAT NEITHER IT NOR THEY HAVE RELIED UPON ANY EARNINGS CLAIMS, SUCH AS ORAL OR WRITTEN STATEMENTS OR SUGGESTIONS, MADE BY ANY REPRESENTATIVE OF OR ANY OTHER PERSON PURPORTING TO BE ACTING ON BEHALF OF FRANCHISOR REGARDING THE POTENTIAL FUTURE SALES, REVENUES OR PROFITS WHICH MAY BE DERIVED FROM OPERATION OF FRANCHISOR COFFEEHOUSES OR DEVELOPMENT OF THE DEVELOPMENT AREA.

**SECTION XXII**  
**EFFECTIVE DATE**

This Agreement shall be effective as of the date it is executed by both parties.

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

FRANCHISOR

AREA DEVELOPER:

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Printed Name & Title)

\_\_\_\_\_  
(Printed Name & Title)



**TOM N TOMS FRANCHISE, LLC**

**AREA DEVELOPMENT AGREEMENT**

**EXHIBIT "A"**

**Minimum Performance Schedule**

The Agreement authorizes and obliges Area Developer to establish and operate \_\_\_\_\_ ( ) "Tom N Toms" Coffeehouses pursuant to a Franchise Agreement for each Coffeehouse. The following is Area Developer's Minimum Performance Schedule:

| Coffeehouse<br>Number | Open &<br>Operating<br>On or Before | Payment<br>Made | Balance<br>Due<br>Per Store | Due Date |
|-----------------------|-------------------------------------|-----------------|-----------------------------|----------|
|                       |                                     |                 |                             |          |
|                       |                                     |                 |                             |          |
|                       |                                     |                 |                             |          |
|                       |                                     |                 |                             |          |
|                       |                                     |                 |                             |          |
|                       |                                     |                 |                             |          |
|                       |                                     |                 |                             |          |
|                       |                                     |                 |                             |          |
|                       |                                     |                 |                             |          |

APPROVED:

AREA DEVELOPER

Franchisor

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

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

TOM N TOMS FRANCHISE, LLC

AREA DEVELOPMENT AGREEMENT

EXHIBIT "B"

Development Area

The following describes the Development Area within which Area Developer may locate "Tom N Toms" Coffeehouses under this Agreement:

APPROVED:

AREA DEVELOPER

Franchisor

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

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

TOM N TOMS FRANCHISE, LLC  
EXISTING COFFEEHOUSES IN DEVELOPMENT AREA  
EXHIBIT "C"

APPROVED:

AREA DEVELOPER

FRANCHISOR

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

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

**TOM N TOMS FRANCHISE, LLC**

**AREA DEVELOPMENT AGREEMENT**

**EXHIBIT "D"**

**CERTIFICATION OF AREA DEVELOPER**

The undersigned, personally and as an officer or partner of Area Developer, as applicable, does hereby certify that he has conducted an independent investigation of the business contemplated by this Area Development Agreement and the Franchisor Franchise Agreement, and that the decision to execute the Area Development Agreement was based entirely upon the independent investigation by the undersigned; and the undersigned further certifies that he has not relied upon, in any way, any claims regarding potential sales, income, or earnings to be derived from the business contemplated by the Franchise Agreement and Area Development Agreement, and has not relied upon any claims regarding past or current sales, income or earnings of Company-operated "Franchisor " Coffeehouses. The undersigned further certified that he understands the risks involved in this investment and Franchisor, LLC makes no representation or guaranty, explicit or implied that the Area Developer will be successful or will recoup his investment.

**IN WITNESS WHEREOF**, the undersigned has signed, sealed and delivered this Certificate this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

"AREA DEVELOPER"

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT E**  
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**TOM N TOMS**

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**EXHIBIT F****LIST OF CURRENT FRANCHISEES**

| <b>Store</b>                       | <b>Address</b>                                           | <b>Tel No.</b> | <b>Contact Person</b> |
|------------------------------------|----------------------------------------------------------|----------------|-----------------------|
|                                    |                                                          |                |                       |
| Tom N Toms<br>Olympic              | 2716 W. Olympic Blvd.,<br>#108, Los Angeles, CA<br>90006 | 213 503-1180   | Ana Lee               |
| Tom N Toms<br>Vermont<br>Galleria  | 440 S Vermont Galleria,<br>Los Angeles, CA 90020         | 213 738-9134   | Monica Won            |
| Tom N Toms<br>Carrolton            | 2625 Old Denton Rd #406.<br>Carrolton, TX 75007          | 972 446-6633   | Angela Kim            |
| Tom N Toms<br>Houston<br>Chinatown | 9393 Bellaire Blvd.,<br>Suite A5, Houston, TX<br>77036   | 346 352-3137   | Kyung Kim             |
| Tom N Toms<br>Vantage Point        | 1229 Ninth Ave. #110, San<br>Diego, CA 92101             | 858 699-8438   | Eunjoo Shin           |

**EXHIBIT G**

**LIST OF FRANCHISEES WHO HAVE LEFT THE SYSTEM**

| <b>Store</b>              | <b>Address</b>                                | <b>Tel No.</b>  | <b>Contact Person</b> | <b>Reasons<br/>for<br/>Leaving</b> |
|---------------------------|-----------------------------------------------|-----------------|-----------------------|------------------------------------|
| Tom N Toms<br>Fullerton   | 4542 Beach Blvd.,<br>Buena Park, CA 90621     | 714 670<br>6898 | Kyung Jun Lee*        | Terminated<br>(2015)               |
| Tom N Toms<br>Santa Clara | 3050 El Camino Real,<br>Santa Clara, CA 95051 | 408 564<br>8698 | Alex Pak              | Terminated<br>(2019)               |

**EXHIBIT H**

**FINANCIAL INFORMATION**

# **TOM N TOMS FRANCHISE, LLC.**

---

FINANCIAL STATEMENTS

DECEMBER 31, 2019

WITH

**INDEPENDENT AUDITORS' REPORT**

**TOM N TOMS FRANCHISE, LLC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**Lim and Lim Accountancy Corp.**

3700 Wilshire Blvd., Suite 752, Los Angeles, CA 90010  
Phone 213.380.4646 Fax 213.380.6814 www.limcpa.com

## INDEPENDENT AUDITORS' REPORT

To the Member of  
TOM N TOMS FRANCHISE, LLC.  
113 N Western Ave  
Los Angeles, CA 90004

We have audited the accompanying financial statements of TOM N TOMS FRANCHISE, LLC., which comprise the statement of financial condition as of December 31, 2019, and the related statements of income, changes in member's equity, and cash flows for the period then ended.

### *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.

### *Auditors' Responsibility*

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



**Lim and Lim Accountancy Corp.**

3700 Wilshire Blvd., Suite 752, Los Angeles, CA 90010  
Phone 213.380.4646 Fax 213.380.6814 www.limcpa.com

*(Continued)*

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 TOM N TOMS FRANCHISE, LLC. as of December 31, 2019, and the results of its operations and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

  
Los Angeles, California  
June 16, 2020



**TOM N TOMS FRANCHISE, LLC.**

**BALANCE SHEET**

**AS OF DECEMBER 31, 2019**

---

**ASSETS**

**CURRENT ASSETS**

|                                                |    |               |
|------------------------------------------------|----|---------------|
| Cash and Cash Equivalents                      | \$ | 31,300        |
| Accounts Receivable, Net of Allowance (Note 2) |    | 4,662         |
| Other Current Assets (Note 3)                  |    | 14,650        |
| <b>Total Current Assets</b>                    |    | <u>50,611</u> |

|                     |    |               |
|---------------------|----|---------------|
| <b>Total Assets</b> | \$ | <u>50,611</u> |
|---------------------|----|---------------|

**LIABILITIES AND MEMBER'S EQUITY**

**CURRENT LIABILITIES**

|                                  |    |              |
|----------------------------------|----|--------------|
| Accounts Payable (Note 5)        | \$ | 7,712        |
| Income Tax Payable               |    | 800          |
| <b>Total Current Liabilities</b> |    | <u>8,512</u> |

|                          |  |       |
|--------------------------|--|-------|
| <b>Total Liabilities</b> |  | 8,512 |
|--------------------------|--|-------|

**MEMBER'S EQUITY**

|                              |  |               |
|------------------------------|--|---------------|
| Member's Contribution        |  | 180,000       |
| Accumulated Deficit          |  | (137,901)     |
| <b>Total Member's Equity</b> |  | <u>42,099</u> |

|                                              |    |               |
|----------------------------------------------|----|---------------|
| <b>Total Liabilities and Member's Equity</b> | \$ | <u>50,611</u> |
|----------------------------------------------|----|---------------|

See accompanying auditors' report and notes to financial statements.

**TOM N TOMS FRANCHISE, LLC.**

**STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2019**

---

|                                    |                         |
|------------------------------------|-------------------------|
| Revenue                            |                         |
| Franchisee Fee                     | \$ 60,000               |
| Royalty                            | 42,973                  |
| Total Revenue                      | <u>102,973</u>          |
| Operating Expenses                 |                         |
| Bank Service Charges               | 110                     |
| Occupancy and Equipment            | 3,919                   |
| Outside Service (Note 6)           | 64,325                  |
| Professional Fees                  | 10,663                  |
| Total Operating Expenses           | <u>79,018</u>           |
| Income Before Income Tax Provision | 23,954                  |
| Income Tax Provision (Note 7)      | <u>800</u>              |
| Net Income                         | <u><u>\$ 23,154</u></u> |

See accompanying auditors' report and notes to financial statements.

**TOM N TOMS FRANCHISE, LLC.**  
STATEMENT OF CHANGES IN MEMBER'S EQUITY  
YEAR ENDED DECEMBER 31, 2019

---

|                            |                         |
|----------------------------|-------------------------|
| Balance, January 1, 2019   | \$ 18,945               |
| Net Income                 | <u>23,154</u>           |
| Balance, December 31, 2019 | <u><u>\$ 42,099</u></u> |

See accompanying auditors' report and notes to financial statements.

# **TOM N TOMS FRANCHISE, LLC.**

## **Statement of Cash Flows**

**For the Year Ended December 31, 2019**

---

### **Cash Flows from Operating Activities:**

|                                                                                                        |    |               |
|--------------------------------------------------------------------------------------------------------|----|---------------|
| Net Income                                                                                             | \$ | 23,154        |
| Adjustments to Reconcile Net Income to net cash and cash equivalents provided by operating activities: |    |               |
| Depreciation and Amortization                                                                          |    | 3,919         |
| (Increase) Decrease in:                                                                                |    |               |
| Accounts Receivable                                                                                    |    | (1,276)       |
| Other Current Assets                                                                                   |    | (1,361)       |
| Increase (Decrease) in:                                                                                |    |               |
| Accounts Payable                                                                                       |    | 6,063         |
| Income Tax Payable                                                                                     |    | 800           |
|                                                                                                        |    | <hr/>         |
| <b>Net Cash Provided by Operating Activities</b>                                                       |    | <b>31,300</b> |

### **Cash Flows from Investing Activities:**

|                                                  |          |
|--------------------------------------------------|----------|
| <b>Net Cash Provided in Investing Activities</b> | <b>-</b> |
|--------------------------------------------------|----------|

### **Cash Flows from Financing Activities:**

|                                              |                         |
|----------------------------------------------|-------------------------|
| <b>Net cash used by financing activities</b> | <b>-</b>                |
|                                              | <hr/>                   |
| Net decrease in cash                         | 31,300                  |
| Cash at beginning of year                    | -                       |
|                                              | <hr/>                   |
| Cash at end of year                          | <u><u>\$ 31,300</u></u> |

See accompanying auditors' report and notes to financial statements.

**TOM N TOMS FRANCHISE, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

---

**Note 1 – Summary of Significant Accounting Policies**

This summary of significant accounting policies of TOM N TOMS FRANCHISE, LLC. (the “Company”) is presented to assist in understanding the Company’s financial statement. The financial statements and notes are representations of the Company’s Management, who is responsible for the integrity and objectivity.

Organization:

The Company was incorporated in the State of California in October 2012. The Company is mainly engaged in franchising business as “Tom N Toms” coffee shop.

Basis of Accounting

The financial statements of the Company have been prepared on the accrual basis in conformity with generally accepted accounting principles and accordingly reflect all significant receivables, payables, and other liabilities.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principal requires management to make estimates and assumptions that affect the report amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimations. Estimates are used primarily in determining depreciation.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and certificates of deposit that mature within three months of the date of purchase.

Concentration of Credit Risk

The Company maintains its operating accounts in certain financial institutions whose balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, the Company may maintain operating account balances that exceed \$250,000. The Company has not experienced any losses in such amounts, and monitors the creditworthiness of financial institutions with it conducts business. Management believes that the University is not exposed to any significant credit risk with respect to its cash balances.

**TOM N TOMS FRANCHISE, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

---

Revenue Recognition

The Company's main revenues are generated from royalties and various fees from franchisees.

Property and Equipment

Property and equipment are stated at cost. The cost of property and equipment are charged against income over their estimated useful lives, using the straight-line method of depreciation. Repairs and maintenance, which are not considered betterment and do not extend the useful life of property and equipment, are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the asset and accumulated depreciation are removed from the accounts and the resulting profit or loss is reflected in income.

Depreciation and Amortization

Depreciation and amortization of property and equipment are provided using the straight-line method over the estimated useful lives of the assets, which range from five to sixty years.

**Note 2 – Accounts Receivable**

The Company has royalties receivable with franchisees.

Accounts receivable on December 31, 2019 is as follows:

|                                       | <u>As of December 31, 2019</u> |
|---------------------------------------|--------------------------------|
| Accounts Receivable                   | \$ 4,662                       |
| Less: Allowance for doubtful accounts | <u>-</u>                       |
| Net Realizable Value                  | <u>\$ 4,662</u>                |

**TOM N TOMS FRANCHISE, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

---

**Note 3 – Other Current Assets**

Other Current Assets as of December 31, 2019 consist of the followings:

|                                       | <u>As of December 31, 2019</u> |
|---------------------------------------|--------------------------------|
| Loan to Member – Tom N Toms USA, Inc. | \$ 13,450                      |
| Loan to Waa Waa                       | <u>1,200</u>                   |
| Total Other Current Assets            | <u>\$ 14,650</u>               |

**Note 4 – Property and Equipment**

The summary of property and equipment at December 31, 2019 is as follows:

|                                | <u>As of December 31, 2019</u> |
|--------------------------------|--------------------------------|
| Property and equipment         | \$ 29,379                      |
| Total Property and Equipment   | 29,379                         |
| Less: Accumulated depreciation | <u>(29,379)</u>                |
| Property and Equipment, net    | <u>\$ -</u>                    |

**Note 5 – Accounts Payable**

Accounts Payable as of December 31, 2019 consist of the followings:

|                        | <u>As of December 31, 2019</u> |
|------------------------|--------------------------------|
| Lee & Ahn CPAs         | \$ 6,063                       |
| Kofran, Inc.           | 864                            |
| Woori America Bank     | <u>785</u>                     |
| Total Accounts Payable | <u>\$ 7,712</u>                |

**TOM N TOMS FRANCHISE, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2019

---

**Note 6 – Outside Services**

The Company is managed with a management fee paid to its parent company and also pays a commission to the third party(Kofran, Inc.) to manage its franchisees in the State of Texas.

Outside Services as of December 31, 2019 consist of the followings:

|                                   | <u>As of December 31, 2019</u> |
|-----------------------------------|--------------------------------|
| Kofran, Inc.                      | \$ 16,325                      |
| Management Fees to Parent Company | <u>48,000</u>                  |
| <br>Total Outside Services        | <br><u>\$ 64,325</u>           |

**Note 7 – Income Taxes**

The Company accounts for income taxes in accordance with ASC 740, “Income Taxes” which requires that deferred tax assets and liabilities be recognized for the tax effect of temporary differences between the financial statement and tax basis of recorded assets and liabilities at current tax rates. This guidance also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The recoverability of deferred tax assets is based on both the historical and anticipated earnings levels and is reviewed periodically to determine if any additional valuation allowance is necessary when it is more likely than not that amounts will be recovered.

The provisions for income taxes consist of the following for year ended December 31, 2019:

|                                            | <u>As of December 31, 2019</u> |
|--------------------------------------------|--------------------------------|
| Provision for State Income Tax Expense     | <u>\$ 800</u>                  |
| <br>Total Provision for Income Tax Expense | <br><u>\$ 800</u>              |



**Lim and Lim Accountancy Corp.**

3700 Wilshire Blvd., Suite 752, Los Angeles, CA 90010  
Phone 213.380.4646 Fax 213.380.6814 www.limcpa.com

**INDEPENDENT AUDITORS' REPORT  
ON ADDITIONAL INFORMATION**

To the Member of  
TOM N TOMS FRANCHISE, LLC.

Our report on our audit of the basic financial statements of TOM N TOMS FRANCHISE, LLC. for the period appears on page 3. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Los Angeles, California  
June 16, 2020

**TOM N TOMS FRANCHISE, LLC.**  
**FINANCIAL STATEMENTS AND**  
**ACCOUNTANTS' COMPILATION REPORT**

**Five Months Ended**

**May 31, 2020**



**Lim and Lim Accountancy Corp.**

3700 Wilshire Blvd., Suite 752, Los Angeles, CA 90010  
Phone 213.380.4646 Fax 213.380.6814 www.limcpa.com

**ACCOUNTANT'S COMPILATION REPORT**

To the Member of  
TOM N TOMS FRANCHISE, LLC.  
113 N Western Ave  
Los Angeles, CA 90004

I have compiled the accompanying balance sheet of TOM N TOMS FRANCHISE, LLC. as of May 31, 2020 and the related profit and loss statement for five months then ended. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the statements.

My responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted disclosures and the statement of cash flows were included in the financial statements, they might influence the user's conclusions about the Company's financial position, result of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

June 22, 2020  
Los Angeles, California

AICPA

**TOM N TOMS FRANCHISE, LLC.**  
**Balance Sheet**  
As of May 31, 2020

|                                        | May 31, 20       |
|----------------------------------------|------------------|
| <b>ASSETS</b>                          |                  |
| <b>Current Assets</b>                  |                  |
| Checking/Savings                       |                  |
| Woori America Bank #1724               | 14,773.55        |
| <b>Total Checking/Savings</b>          | 14,773.55        |
| <b>Other Current Assets</b>            |                  |
| Account Receivable                     | 1,346.03         |
| Loan to TOM N TOMS USA, INC.           | 43,059.75        |
| Loan to Waa Waa                        | 1,200.00         |
| <b>Total Other Current Assets</b>      | 45,605.78        |
| <b>Total Current Assets</b>            | 60,379.33        |
| <b>Fixed Assets</b>                    |                  |
| Machinery and Equipment                | 29,379.49        |
| Accumulated Depreciation               | (29,379.49)      |
| <b>Total Fixed Assets</b>              | 0.00             |
| <b>TOTAL ASSETS</b>                    | <b>60,379.33</b> |
| <b>LIABILITIES &amp; EQUITY</b>        |                  |
| <b>Liabilities</b>                     |                  |
| <b>Current Liabilities</b>             |                  |
| Other Current Liabilities              |                  |
| Accounts Payable                       | 7,112.00         |
| Income Tax Payable                     | 800.00           |
| <b>Total Other Current Liabilities</b> | 7,912.00         |
| <b>Total Current Liabilities</b>       | 7,912.00         |
| <b>Total Liabilities</b>               | 7,912.00         |
| <b>Equity</b>                          |                  |
| Members' Investment                    | 180,000.00       |
| Members' Equity                        | (137,900.62)     |
| Net Income                             | 10,367.95        |
| <b>Total Equity</b>                    | 52,467.33        |
| <b>TOTAL LIABILITIES &amp; EQUITY</b>  | <b>60,379.33</b> |

**TOM N TOMS FRANCHISE, LLC.**  
**Profit & Loss**  
January through May 2020

---

|                         | Jan - May 20 |
|-------------------------|--------------|
| Ordinary Income/Expense |              |
| Income                  |              |
| Franchisee Fee          | 10,000.00    |
| Royalty                 | 9,657.20     |
| Return and Allowances   | (335.93)     |
| Total Income            | 19,321.27    |
| Gross Profit            | 19,321.27    |
| Expense                 |              |
| Bank Service Charges    | 45.00        |
| Outside Services        | 6,966.57     |
| Professional Fees       | 1,500.00     |
| Taxes and Licenses      | 441.75       |
| Total Expense           | 8,953.32     |
| Net Ordinary Income     | 10,367.95    |
| Net Income              | 10,367.95    |

**TOM N TOMS FRANCHISE, LLC.**

**FOR THE YEAR ENDED  
DECEMBER 31, 2018**

***FINANCIAL STATEMENTS***

**with**

***Independent Auditor's Report***

**YOON J. HWANG, CPA**

# **C O N T E N T S**

|                                                    |              |
|----------------------------------------------------|--------------|
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# Yoon Jeong Hwang, CPA

---

## Accounting, Audit, Tax & Consulting

### INDEPENDENT AUDITOR'S REPORT

To the Member of  
TOM N TOMS FRANCHISE, LLC.  
Los Angeles, California

I have audited the accompanying financial statements of TOM N TOMS FRANCHISE, LLC., which comprise the balance sheet as of December 31, 2018, and the related statements of operations and member's equity, and cash flows for the year 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 U.S. generally accepted accounting principles; 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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 consolidated financial statements.

# Yoon Jeong Hwang, CPA

---

## Accounting, Audit, Tax & Consulting

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TOM N TOMS FRANCHISE, LLC. as of December 31, 2018, and the result of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Los Angeles, California  
April 8, 2019

# **TOM N TOMS FRANCHISE, LLC.**

## **BALANCE SHEET**

**December 31, 2018**

---

### **ASSETS**

#### **CURRENT ASSETS:**

|                             | Note |               |
|-----------------------------|------|---------------|
| Cash & Cash Equivalents     | 2    | \$ -          |
| Accounts Receivable, net    | 3    | 3,386         |
| Other Current Assets        | 4, 7 | <u>13,289</u> |
| <b>TOTAL CURRENT ASSETS</b> |      | <b>16,675</b> |

|                                     |          |                     |
|-------------------------------------|----------|---------------------|
| <b>PROPERTY AND EQUIPMENT - Net</b> | <b>5</b> | <b><u>3,919</u></b> |
|-------------------------------------|----------|---------------------|

|                     |           |                             |
|---------------------|-----------|-----------------------------|
| <b>TOTAL ASSETS</b> | <b>\$</b> | <b><u><u>20,594</u></u></b> |
|---------------------|-----------|-----------------------------|

### **LIABILITIES AND MEMBERER'S EQUITY**

#### **CURRENT LIABILITIES:**

|                                  |           |                     |
|----------------------------------|-----------|---------------------|
| Accounts Payble                  | <b>\$</b> | <b><u>1,649</u></b> |
| <b>TOTAL CURRENT LIABILITIES</b> |           | <b><u>1,649</u></b> |
| <b>TOTAL LIABILITIES</b>         |           | <b><u>1,649</u></b> |

#### **MEMBER'S EQUITY:**

|                                              |           |                             |
|----------------------------------------------|-----------|-----------------------------|
| Member's Contribution                        | <b>8</b>  | <b>180,000</b>              |
| Accumulated Deficit                          |           | <b><u>(161,055)</u></b>     |
| <b>TOTAL MEMBER'S EQUITY</b>                 |           | <b><u>18,945</u></b>        |
| <b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b> | <b>\$</b> | <b><u><u>20,594</u></u></b> |

See the independent auditor's report and accompanying notes to financial statements.

**TOM N TOMS FRANCHISE, LLC.****STATEMENT OF OPERATIONS AND MEMBER'S EQUITY****Year ended December 31, 2018**

---

|                                                        |             |           |                                |
|--------------------------------------------------------|-------------|-----------|--------------------------------|
| <b>REVENUE</b>                                         | <b>Note</b> | <b>\$</b> | <b>65,824</b>                  |
| <b>OPERATING EXPENSES - schedule attached</b>          |             |           | <b>48,125</b>                  |
| <b>OTHER INCOME AND EXPENSES</b>                       |             |           |                                |
| Other Income                                           |             |           | -                              |
| Interest Expenses                                      |             |           | -                              |
| Settlement Loss                                        | 9           |           | <u>(51,890)</u>                |
| Total Other Income/(Expenses)                          |             |           | <u>(51,890)</u>                |
| <b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>          |             |           | <b>(34,191)</b>                |
| <b>PROVISION FOR INCOME TAXES</b>                      |             |           | <u><b>1,600</b></u>            |
| <b>NET LOSS</b>                                        |             | <b>\$</b> | <u><u><b>(35,791)</b></u></u>  |
| <b>MEMBER'S EQUITY (DEFICIT) - beginning of period</b> |             | <b>\$</b> | <b>(125,264)</b>               |
| <b>NET INCOME (LOSS)</b>                               |             |           | <u><b>(35,791)</b></u>         |
| <b>MEMBER'S EQUITY (DEFICIT) - end of period</b>       |             | <b>\$</b> | <u><u><b>(161,055)</b></u></u> |

See the independent auditor's report and accompanying notes to financial statements.

# **TOM N TOMS FRANCHISE, LLC.**

## **STATEMENT OF CASH FLOWS**

**Year ended December 31, 2018**

---

### **OPERATING ACTIVITIES:**

|                                                                           |                    |
|---------------------------------------------------------------------------|--------------------|
| Net income (loss)                                                         | <u>\$ (35,791)</u> |
| Adjustments to reconcile net income (loss) to cash provided by operations |                    |
| Depreciation & amortization                                               | 5,876              |
| (Incr.) decr. in receivable                                               | 24,919             |
| (Incr.) decr. in other assets                                             | 8,819              |
| Incr. (decr.) in allowance for doubtful account                           | (1,415)            |
| Incr. (decr.) in accounts payable                                         | 1,649              |
| Incr. (decr.) in interest payable                                         | (635)              |
| Total adjustments                                                         | <u>39,212</u>      |
| Cash provided by (used) operations                                        | <u>3,421</u>       |

### **CASH FLOWS FROM INVESTING ACTIVITIES:**

|                                                      |          |
|------------------------------------------------------|----------|
| Net cash provided by (used in) investing activities: | <u>-</u> |
|------------------------------------------------------|----------|

### **FINANCING ACTIVITIES:**

|                                            |                 |
|--------------------------------------------|-----------------|
| Repayments of long-term debts              | (134,006)       |
| Proceeds from long-term debts              | <u>47,308</u>   |
| Cash provided by used financing activities | <u>(86,699)</u> |

|                                 |          |
|---------------------------------|----------|
| NET INCREASE (DECREASE) IN CASH | (83,277) |
|---------------------------------|----------|

|                            |               |
|----------------------------|---------------|
| CASH - Beginning of period | <u>83,277</u> |
|----------------------------|---------------|

|                      |                      |
|----------------------|----------------------|
| CASH - End of period | <u><u>\$ (0)</u></u> |
|----------------------|----------------------|

See the independent auditor's report and accompanying notes to financial statements.

# **TOM N TOMS FRANCHISE, LLC.**

## **NOTES TO FINANCIAL STATEMENTS**

**Year ended December 31, 2018**

---

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **NATURE OF BUSINESS**

Tom N Toms Franchise, LLC. " the Company" was organized as an California LLC on January 30, 2012. The Company is a wholly owned subsidiary of TOM N TOMS USA, INC., an California Corporation.

The Company is mainly engaged in franchise business as "Tom N Toms" coffee shop.

#### **Basis of Accounting**

The following summary of significant accounting policies is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the company's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statement.

#### **Use of 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 and disclosures. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

#### **Allowance for Doubtful Accounts**

Allowance for doubtful accounts is calculated based on historical experience and customer credit risk. As of reporting date, No allowance for doubtful accounts was estimated.

#### **Revenue Recognition**

The Company's main revenues are generated from royalties and fees from franchisees.

#### **Advertising Expenses**

The Company's advertising costs are expensed as incurred. For the year ended December 31, 2018, no advertising cost was incurred.

## **TOM N TOMS FRANCHISE, LLC.**

### **NOTES TO FINANCIAL STATEMENTS**

**Year ended December 31, 2018**

---

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Property and Equipment**

Property and equipment, including renewals and betterments, are stated at historical cost. Cost of renewals and betterment that extend the economic useful lives of the related assets are capitalized. Expenditures for ordinary repairs and maintenance are charged to expense as incurred. Depreciation is computed over the estimated useful life of the respective asset under the straight-line method. The useful lives of assets are as follows:

|           | <u>Useful lives</u> |
|-----------|---------------------|
| Equipment | 5 years             |

#### **NOTE 2: CASH & CASH EQUIVALENTS**

Cash and cash equivalents as of reporting date was as follows:

|                               |             |
|-------------------------------|-------------|
| Cash in bank                  | \$ -        |
| Total cash & cash equivalents | <u>\$ -</u> |

#### **NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable (royalties) as of reporting date consist of the followings:

|                                       |                 |
|---------------------------------------|-----------------|
| Accounts receivable                   | \$ 3,386        |
| Less: allowance for doubtful accounts | -               |
| Net realizable value                  | <u>\$ 3,386</u> |

#### **NOTE 4 - Other Current Assets**

Other Current Assets as of reporting date was as follows:

|                                        |                  |
|----------------------------------------|------------------|
| Due from Member - Tom N Toms USA, Inc. | \$ 13,289        |
| Total other current assets             | <u>\$ 13,289</u> |

#### **NOTE 5 - PROPERTY AND EQUIPMENT -NET**

Property and equipment as of reporting date consist of the followings:

|                                    |                 |
|------------------------------------|-----------------|
| Equipments                         | \$ 29,379       |
| Total property and equipment       | <u>29,379</u>   |
| Less: Accumulated depreciation     | 25,460          |
| Total property and equipment - net | <u>\$ 3,919</u> |

## **TOM N TOMS FRANCHISE, LLC.**

### **NOTES TO FINANCIAL STATEMENTS**

**Year ended December 31, 2018**

---

#### **NOTE 6 - UNEARNED REVENUE**

As of reporting date, no unearned revenue was recognized.

#### **NOTE 7 - RELATED PARTY TRANSACTIONS**

Member of the Company made multiple loans to the Company to fund the Company's operating expenses and the Company made re-payments through out the reporting period. As of reporting date, the Company has balance of \$13,288.37 as a due from member account. The Company expect re-payment from member within the next accounting period and no interest had been accrued.

#### **NOTE 8 - MEMBER'S EQUITY**

On February 14, 2012, member has contributed cash \$100,000. On December 9, 2015 the member contributed additional cash \$80,000. As of reporting date, total contributed capital balance was \$180,000.

#### **NOTE 9 - COMMITMENTS AND CONTINGENCIES**

In January 2018, the Settlement Agreement and Mutual release ("the agreement") was made and entered into between the Company and one of the Company's franchisee. The total amount of the Agreement was \$51,889.57 which was recognized as settlement loss for the reporting period.

Except as disclosed above, the Company is not currently a party to any legal proceeding that management believes could have a material adverse effect on the Company's financial position, result of operations or cash flows.

#### **NOTE 10 - SUBSEQUENT EVENTS**

Management of the Company has evaluated material events or transactions subsequent to December 31, 2018 through April 08, 2019, the date of issuance of audited financial statements of the Company, and determined that there was no material subsequent event that would be reported in the financial statements.

## **Supplementary Information**

**TOM N TOMS FRANCHISE, LLC.**

**SCHEDULE OF OPERATING EXPENSES**

**Year ended December 31, 2018**

---

**OPERATING EXPENSES:**

|                             |                  |                |
|-----------------------------|------------------|----------------|
| Bad Debt Expense            | \$ 23,497        | 48.82%         |
| Bank Charges                | 202              | 0.42%          |
| Commission                  | 10,000           | 20.78%         |
| Depreciation                | 5,876            | 12.21%         |
| Legal and Professional Fees | <u>8,550</u>     | <u>17.77%</u>  |
| TOTAL OPERATING EXPENSES    | <u>\$ 48,125</u> | <u>100.00%</u> |

See accountants' compilation report and accompanying notes to financial statements

**TOM N TOMS FRANCHISE, LLC.**

**FOR THE YEAR ENDED  
DECEMBER 31, 2017**

***FINANCIAL STATEMENTS***

**with**

***Independent Auditor's Report***

**YOON J. HWANG, CPA**

# **C O N T E N T S**

|                                                    |               |
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| <b>Financial Statements</b>                        |               |
| <b>Balance Sheet</b>                               | <b>4</b>      |
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| <b>Statement of Cash Flows</b>                     | <b>6</b>      |
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# Yoon Jeong Hwang, CPA

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## Accounting, Audit, Tax & Consulting

### INDEPENDENT AUDITOR'S REPORT

To the Member of  
TOM N TOMS FRANCHISE, LLC.  
Los Angeles, California

I have audited the accompanying financial statements of TOM N TOMS FRANCHISE, LLC., which comprise the balance sheet as of December 31, 2017, and the related statements of operations and member's equity, and cash flows for the year 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 U.S. generally accepted accounting principles; 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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 consolidated financial statements.

# Yoon Jeong Hwang, CPA

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## Accounting, Audit, Tax & Consulting

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TOM N TOMS FRANCHISE, LLC. as of December 31, 2017, and the result of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Los Angeles, California  
February 21, 2018

# **TOM N TOMS FRANCHISE, LLC.**

## **BALANCE SHEET**

**December 31, 2017**

---

### **ASSETS**

#### **CURRENT ASSETS:**

|                          |   |    |               |
|--------------------------|---|----|---------------|
| Cash & Cash Equivalents  | 2 | \$ | 83,277        |
| Accounts Receivable, net | 3 |    | 26,890        |
| Other Current Assets     | 4 |    | <u>22,107</u> |

**TOTAL CURRENT ASSETS** 132,274

**PROPERTY AND EQUIPMENT - Net** 5 9,795

**TOTAL ASSETS** \$ 142,069

### **LIABILITIES AND MEMBERER'S EQUITY**

#### **CURRENT LIABILITIES:**

|                                  |   |    |            |
|----------------------------------|---|----|------------|
| Interest Payble                  | 7 | \$ | <u>635</u> |
| <b>TOTAL CURRENT LIABILITIES</b> |   |    | <u>635</u> |

#### **LONG - TERM DEBTS**

|                                |   |  |               |
|--------------------------------|---|--|---------------|
| Loan from Member               | 7 |  | <u>86,699</u> |
| <b>TOTAL LONG - TERM DEBTS</b> |   |  | <u>86,699</u> |

**TOTAL LIABILITIES** 87,334

#### **MEMBER'S EQUITY:**

|                       |   |  |                  |
|-----------------------|---|--|------------------|
| Member's Contribution | 8 |  | 180,000          |
| Accumulated Deficit   |   |  | <u>(125,264)</u> |

**TOTAL MEMBER'S EQUITY** 54,736

**TOTAL LIABILITIES AND MEMBER'S EQUITY** \$ 142,069

See the independent auditor's report and accompanying notes to financial statements.

**TOM N TOMS FRANCHISE, LLC.****STATEMENT OF OPERATIONS AND MEMBER'S EQUITY****Year ended December 31, 2017**

---

|                                               |             |           |                              |
|-----------------------------------------------|-------------|-----------|------------------------------|
| <b>REVENUE</b>                                | <b>Note</b> | <b>\$</b> | <b>22,098</b>                |
| <b>OPERATING EXPENSES - schedule attached</b> |             |           | <b><u>15,591</u></b>         |
| <b>OTHER INCOME AND EXPENSES</b>              |             |           |                              |
| Other Income                                  |             |           | 3,412                        |
| Interest Expenses                             |             |           | (635)                        |
| Settlement Loss                               |             |           | <u>(17,397)</u>              |
| Total Other Income/(Expenses)                 |             |           | <u><u>(14,621)</u></u>       |
| <b>LOSS BEFORE PROVISION FOR INCOME TAXES</b> |             |           | <b>(8,114)</b>               |
| <b>PROVISION FOR INCOME TAXES</b>             |             |           | <b><u>800</u></b>            |
| <b>NET LOSS</b>                               |             | <b>\$</b> | <b><u><u>(8,914)</u></u></b> |
| <b>MEMBER'S EQUITY - beginning of period</b>  |             | <b>\$</b> | <b>63,649</b>                |
| <b>NET INCOME</b>                             |             |           | <b><u>(8,914)</u></b>        |
| <b>MEMBER'S EQUITY - end of period</b>        |             | <b>\$</b> | <b><u><u>54,736</u></u></b>  |

See the independent auditor's report and accompanying notes to financial statements.

# **TOM N TOMS FRANCHISE, LLC.**

## **STATEMENT OF CASH FLOWS**

**Year ended December 31, 2017**

---

### **OPERATING ACTIVITIES:**

|                                                                           |                   |
|---------------------------------------------------------------------------|-------------------|
| Net income (loss)                                                         | <u>\$ (8,914)</u> |
| Adjustments to reconcile net income (loss) to cash provided by operations |                   |
| Depreciation & amortization                                               | 5,876             |
| (Incr.) decr. in receivable                                               | 8,098             |
| (Incr.) decr. in other assets                                             | (6,949)           |
| Incr. (decr.) in allowance for doubtful account                           | 1,415             |
| Incr. (decr.) in accounts payable                                         | (3,584)           |
| Incr. (decr.) in interest payable                                         | <u>635</u>        |
| Total adjustments                                                         | <u>5,491</u>      |
| Cash provided by (used) operations                                        | <u>(3,422)</u>    |

### **CASH FLOWS FROM INVESTING ACTIVITIES:**

|                                                      |          |
|------------------------------------------------------|----------|
| Net cash provided by (used in) investing activities: | <u>-</u> |
|------------------------------------------------------|----------|

### **FINANCING ACTIVITIES:**

|                                            |                |
|--------------------------------------------|----------------|
| Repayments of long-term debts              | (307,345)      |
| Proceeds from long-term debts              | <u>394,044</u> |
| Cash provided by used financing activities | <u>86,699</u>  |

**NET INCREASE (DECREASE) IN CASH** 83,276

**CASH - Beginning of period** 1

**CASH - End of period** \$ 83,277

See the independent auditor's report and accompanying notes to financial statements.

# **TOM N TOMS FRANCHISE, LLC.**

## **NOTES TO FINANCIAL STATEMENTS**

**Year ended December 31, 2017**

---

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **NATURE OF BUSINESS**

Tom N Toms Franchise, LLC. " the Company" was organized as an California LLC on January 30, 2012. The Company is a wholly owned subsidiary of TOM N TOMS USA, INC., an California Corporation.

The Company is mainly engaged in franchise business as "Tom N Toms" coffee shop.

#### **Basis of Accounting**

The following summary of significant accounting policies is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the company's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statement.

#### **Use of 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 and disclosures. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

#### **Allowance for Doubtful Accounts**

Allowance for doubtful accounts is calculated based on historical experience and customer credit risk. As of reporting date, \$1,415.24 of allowance for doubtful accounts was estimated which is 5% of accounts receivable as of December 31, 2017

#### **Revenue Recognition**

The Company's main revenues are generated from royalties and fees from franchisees.

#### **Advertising Expenses**

The Company's advertising costs are expensed as incurred. For the year ended December 31, 2017, no advertising cost was incurred.

# **TOM N TOMS FRANCHISE, LLC.**

## **NOTES TO FINANCIAL STATEMENTS**

**Year ended December 31, 2017**

---

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Property and Equipment**

Property and equipment, including renewals and betterments, are stated at historical cost. Cost of renewals and betterment that extend the economic useful lives of the related assets are capitalized. Expenditures for ordinary repairs and maintenance are charged to expense as incurred. Depreciation is computed over the estimated useful life of the respective asset under the straight-line method. The useful lives of assets are as follows:

|           | <u>Useful lives</u> |
|-----------|---------------------|
| Equipment | 5 years             |

### **NOTE 2: CASH & CASH EQUIVALENTS**

Cash and cash equivalents as of reporting date was as follows:

|                               |                  |
|-------------------------------|------------------|
| Cash in bank                  | \$ 83,277        |
| Total cash & cash equivalents | <u>\$ 83,277</u> |

### **NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable as of reporting date consist of the followings:

|                                       |                  |
|---------------------------------------|------------------|
| Accounts receivable                   | \$ 28,305        |
| Less: allowance for doubtful accounts | <u>(1,415)</u>   |
| Net realizable value                  | <u>\$ 26,890</u> |

### **NOTE 4 - Other Current Assets**

Other Current Assets as of reporting date was as follows:

|                            |                  |
|----------------------------|------------------|
| Due from affiliates        | \$ 22,107        |
| Total other current assets | <u>\$ 22,107</u> |

### **NOTE 5 - PROPERTY AND EQUIPMENT -NET**

Property and equipment as of reporting date consist of the followings:

|                                    |                 |
|------------------------------------|-----------------|
| Equipments                         | \$ 29,379       |
| Total property and equipment       | <u>29,379</u>   |
| Less: Accumulated depreciation     | <u>19,584</u>   |
| Total property and equipment - net | <u>\$ 9,795</u> |

## **TOM N TOMS FRANCHISE, LLC.**

### **NOTES TO FINANCIAL STATEMENTS**

**Year ended December 31, 2017**

---

#### **NOTE 6 - UNEARNED REVENUE**

As of reporting date, no unearned revenue was recognized.

#### **NOTE 7 - LONG-TERM DEBT**

As of reporting date, long-term debt consist of the following:

Loan payable to the member, bearing interest at a fixed rate of 4.00% per annum on average loan balance. No collateral was pledged for the loans payable.

|                                         |    |               |
|-----------------------------------------|----|---------------|
| Due to member                           | \$ | 86,699        |
| Less: current portion of long-term debt |    | -             |
|                                         | \$ | <u>86,699</u> |

Under the arrangement of loan repayment, it is scheudled to start from in Year 2019. The aggregate maturities of long-term debt as of reporting date are as follows:

|               |    |               |
|---------------|----|---------------|
| Years ending: |    |               |
| 2018          | \$ | -             |
| 2019          |    | 12,000        |
| 2020          |    | 12,000        |
| 2021          |    | 12,000        |
| 2022          |    | 12,000        |
| There after   |    | 38,699        |
|               | \$ | <u>86,699</u> |

The long-term debt does not require the Company to meet any financial and nonfinancial covenants.

#### **NOTE 8 - MEMBER'S EQUITY**

On February 14, 2012, member has contributed cash \$100,000. On December 9, 2015 the member contributed additional cash \$80,000. As of reporting date, total contributed capital balance was \$180,000.

#### **NOTE 9 - COMMITMENTS AND CONTINGENCIES**

As of reporting date, the Company is not currently a party to any legal proceeding that management believes could have a material adverse effect on the Company's financial position, result of operations or cash flows.

#### **NOTE 10 - SUBSEQUENT EVENTS**

Management of the Company has evaluated material events or transactions subsequent to December 31, 2017 through February 21, 2018, the date of issuance of audited financial statements of the Company, and determined that there was no material subsequent event that would be reported in the financial statements.

## **Supplementary Information**

**TOM N TOMS FRANCHISE, LLC.**

**SCHEDULE OF OPERATING EXPENSES**

**Year ended December 31, 2017**

---

**OPERATING EXPENSES:**

|                             |    |                      |                       |
|-----------------------------|----|----------------------|-----------------------|
| Bad Debt Expense            | \$ | 1,415                | 9.08%                 |
| Bank Charges                |    | 771                  | 4.95%                 |
| Depreciation                |    | 5,876                | 37.69%                |
| Legal and Professional Fees |    | 7,273                | 46.65%                |
| Penalties                   |    | 250                  | 1.60%                 |
| Permit and license          |    | <u>6</u>             | 0.04%                 |
| TOTAL OPERATING EXPENSES    | \$ | <u><u>15,591</u></u> | <u><u>100.00%</u></u> |

See accountants' compilation report and accompanying notes to financial statements

### **State Effective Dates**

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

| <b>State</b> | <b>Effective Date</b> |
|--------------|-----------------------|
| California   | Pending               |
| Virginia     | 8/22/2019             |

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**

**(RETURN ONE COPY TO US)**

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

IF TOM N TOMS FRANCHISE, LLC 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 TOM N TOMS FRANCHISE, LLC DOES NOT DELIVER THIS DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND THE STATE ADMINISTRATORS LISTED IN EXHIBIT 1.

The sellers of Tom N Toms franchise are:

Tom N Toms Franchise, LLC  
President: Cheolku Lee  
3435 Wilshire Blvd., Suite 2090  
Los Angeles, CA 90010  
(213) 908-6829

Date of Issuance: May 30, 2020

I have received a disclosure document dated May 30, 2020 that included the following Exhibits:

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

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

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

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The sellers of Tom N Toms franchise are:

Tom N Toms Franchise, LLC  
President: Cheolku Lee  
3974 Wilshire Blvd., 2<sup>nd</sup> Fl.  
Los Angeles, CA 90010  
(213) 908-6829

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- E. Table of Contents of Confidential Operating Manual
- F. List of Franchisees
- G. List of Franchisees Who Have Left the System
- H. Financial Statements

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

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