

A Business Plan For:

Al's Sandwich Shop

January 1, 1992

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1. Identifying Information about Business

Al's Sandwich Shop maintains its principal business address at 777 Bob Street, Phoenix, AZ 85032. Pursuant to the Franchise Agreement, Al's Sandwich Shop authorizes its Franchisees to operate sandwich restaurants under the name "Al's Sandwich Shop." The Franchisee is also authorized to use the Al's Sandwich Shop trademarks, service marks, trade names, advertising, or other commercial symbols.

Franchisor is currently seeking name and registration approval for the service mark Al's Sandwich Shop. Franchisor is not aware of any current infringing uses of the marks stated above, nor is any litigation pending with respect to these marks. Should service mark registration be denied for any reason, Franchisor reserves right to apply any name to the franchise it so chooses and Franchisee agrees to comply with use and display of any such name.

2. Business Experience of Franchisor's Directors and Executive Officers

A. Al Smith—President

Mr. Smith has been in the sandwich business since 1970. Prior to that he worked for Greyhound Bus Lines. Investing in other businesses has been a strong interest for Mr. Smith. In 1970 Mr. Smith purchased John's Sandwich Shop name and recipe from John Jones who operated John's Sandwich Shop for about 15 years in the Phoenix area of Maricopa County.

In 1970 Mr. Smith opened the Phoenix location, and has since opened other locations.

B. Bob Smith—Vice President

Mr. Smith entered the sandwich business in 1965, working and training with his uncle. He has developed an excellent business background and a strong management knowledge, working at all levels of Al's Sandwich Shop business. He graduated from Phoenix High School in 1960. Mr. Smith has since operated the Phoenix location along with 2 other full-time managers and 4 part-time managers. He supervises the additional Al's Sandwich Shop locations under corporate control. Mr. Smith is also training coordinator for franchise and management trainees. He has also been working on obtaining his Master's degree at Arizona State University.

3. Business Experience of the Franchisor

The Franchisor, Al's Sandwich Shop, was incorporated in January 1970 in Maricopa County, Arizona. Prior to the date of incorporation, the principals owned and operated 3 Al's Sandwich Shops, beginning in 1970 with the original Al's Sandwich Shop located in Phoenix, Arizona. The name *Al's Sandwich Shop* had been in existence for nearly 22 years in the area, and the rights to this name were purchased by Mr. Smith in 1970. Since the Franchisor's incorporation, it has been developing its franchise program and is now currently offering franchises for the first time. Neither the Franchisor nor its principals have offered, nor do they now offer, franchises in any other business. Neither Franchisor nor its parent company has previously offered franchises in any other business nor do they at the current time.

4. Litigation History

Neither Franchisor nor any individuals identified in Section 2 of this disclosure document have at any time during the previous seven fiscal years been convicted of a felony or pleaded *no lo contendere* to a felony charge involving fraud, embezzlement, fraudulent conversion, misappropriation of property, or restraint of trade.

Neither Franchisor nor any individuals identified in Section 2 of this disclosure document have at any time during the previous seven fiscal years been held liable in a civil action resulting in a final judgment or have settled out of court any civil action, or are currently a party to any civil action involving allegations of fraud, embezzlement, fraudulent conversion, misappropriation of property, or restraint of trade brought by a present or former Franchisee or Franchisees or that involves or involved the franchise relationship.

Franchisor is not subject to any currently effective state or federal agency or court injunction or restrictive order, nor is it a party to a proceeding currently pending in which such an order is sought, relating to or affecting franchise activities or the Franchisor-Franchisee relationship, or involving fraud, embezzlement, fraudulent conversion, misappropriation of property, or restraint of trade.

5. Bankruptcy History

Neither Franchisor nor any individuals identified in Section 2 of this disclosure document have filed for bankruptcy, been adjudged bankrupt, reorganized due to insolvency, or been a principal, director, executive officer, or partner of any other person or company that has so filed or was so adjudged or reorganized during or within 1 year after the period that such person held such position with such other person or company.

6. Description of Franchise

The Franchisor develops, operates, trains, and authorizes others to operate sandwich restaurants specializing in sub-sandwiches and pocket sandwiches to company specifications. The concept of Al's Sandwich Shop is to market delicious sandwiches, made with quality ingredients and a unique blend of spices, to customers who may eat in or take the product home.

Franchisees also derive income from sales of products such as breadsticks, salads, and soft drinks. Al's Sandwich Shop is approximately 3000 sq. ft. in size and has a seating area of approximately 85 seats. An ideal location is an end unit in a strip shopping center which can be set up with drive-through window. Typically 50 percent or more of the business is with "takeout" customers, who may purchase sandwiches to go or may purchase pocket-sandwiches either inside the restaurant or from the drive-through window. Al's Sandwich Shop does not deliver to homes and normally requires 3 full-time employees and 5 part-time employees.

Sales will be to the general public who frequent the retail area and to others who become aware of the store through advertising, etc. The Franchisee is not restricted in the clients with whom it may do business.

7. Initial Funds Required

Franchisee is required to make the following nonrefundable initial payments to the persons identified*:

Item	Amount	To Whom Paid	Time of Payment
Initial Franchise Fee	\$16,000	Franchisor	At signing of Franchise Agreement
Signs, Fixtures, Equipment	\$65,000	Purveyors	90 days before scheduled date of opening
Food Inventory/Packaging Supplies	\$10,000	Franchisor	90 days before scheduled date of opening
Lease Deposits, First Month's Rent	From \$5,000 to \$9,000	Landlord	At signing of lease
Leasehold	\$35,000	Contractors	As necessary during construction beginning 60 days before opening
Grand Opening Advertising	\$2,200	Franchisor	30 days prior to opening
Printing/Supplies	\$600	Franchisor	30 days prior to opening
Insurance, Licenses	\$2,200	Insurance, Utility Companies, Government	Two weeks before opening
Total	\$136,000 – \$140,000		

8. Recurring Funds Required

Advertising Fees

Franchisee shall be required to pay 4 percent of monthly gross sales to Franchisor or Franchisor's approved advertising agency with payments due on the first day of each month. Advertising fees shall be utilized by Franchisor to purchase advertising on behalf of Franchisee within Franchisee's regional area or as determined by Franchisor. Typical media purchased will include local newspapers, direct mail coupons, and handouts. Franchisor has final approval on all ad copy and promotional campaigns initiated by Franchisee, which must be approved in advance by Franchisor. Franchisor will have the authority to preclude Franchisee from utilizing media that overlap the territory of another franchisee.

Fixed Monthly Expenses

Franchisee should expect \$2,000 recurring monthly fixed costs such as rent, estimated to be in the range of \$750 to \$2,000; utilities, estimated in amounts ranging from \$500 to \$1,300; inventory purchases, estimated in amounts ranging from \$6,000 to \$11,000; payroll, estimated

* All amounts other than initial franchise fee are approximate and represent best estimates of beginning expenditures. Costs may vary based on size of store, amount of inventory, etc. Capital requirements may be adjusted as necessary but will not exceed those listed herein without approval from Franchisee. A Franchisee may require \$35,000 or more in additional working capital for the first 12 months to cover operating costs. *Note:* Franchisee should also have adequate funds available to cover living expenses in addition to adequate operating capital. The amount necessary shall vary according to each Franchisee's personal needs, mode, and source of living.

in amounts ranging from \$4,500 to \$7,000; telephone, estimated in amounts ranging from \$50 to \$250; and supplies, estimated in amounts ranging from \$40 to \$150.

Recurring Expenses

Franchisee may anticipate the following recurring expenses*:

Item	Amount	To Whom Paid	How Often
Store Rent	\$750 to \$2,000	Landlord	Monthly
Insurance	\$1,000 to \$2,000	Agent	Yearly
Utilities	\$500 to \$1,300	Utility Co.	Monthly
Telephone	\$50 to \$250	Telephone Co.	Monthly
Supplies	\$40 to \$150	Purveyors	Monthly
Inventory	\$6,000 to \$11,000 (24% of gross)	Franchisor	Monthly
Payroll/Taxes	\$4,500 to \$7,000	Employees	Monthly

9. Affiliated Persons the Franchisee Is Required or Advised to Do Business with

Franchisor does not require Franchisee to do business with any person(s) affiliated with the Franchisor. However, Al's Sandwich Shop will recommend suppliers because of the selection and service available through these suppliers.

10. Obligations to Purchase

To maintain the goodwill and prestige of the business and to maintain uniformly high levels of quality service and products sold through Franchise outlets, Franchisee is required to purchase all products related to Al's Sandwich Shop system of conducting business from Al's Sandwich Shop of Phoenix, Arizona. Franchisee may purchase goods not available from Al's Sandwich Shop from other suppliers, provided those suppliers meet the specifications of the Franchisor and are approved in writing, in advance, by Franchisor. Franchisee will purchase required equipment from any supplier, provided that supplier meets the specifications of the Franchisor and is approved in advance and in writing by Franchisor. Initial inventory will include all goods and commodities required to open and operate Al's Sandwich Shop according to the Al's Sandwich Shop system, including dough, cheese, special patented sauces, herbs, and spices. Startup equipment will include oven, mixer, walk-in refrigerator, counter, tables, and chairs.

Franchisor may require Franchisee to modify equipment, fixtures, and inventory from time to time, and Franchisee will be expected to comply with such modifications within 12 months from the date of notification of modifications.

*The amounts and frequency of payments are best estimates of continuing costs and will vary from one franchise to the next, depending on volume of business, amounts ordered and needed for replacement, location of business, regional variations, etc.

11. Revenues Received by the Franchisor in Consideration of Purchases by Franchisee

The Franchisor will derive revenue from the sale/distribution of products purchased by Franchisee from Al's Sandwich Shop.

12. Financing Arrangements

The Franchisor does not provide financing to Franchisee, but will provide its assistance to Franchisee in obtaining financing. The Franchisor receives no payment from any person offering financing, or arranging for the placement of financing, for a prospective Franchisee. Franchisee is responsible for obtaining financing from third-party sources in any amounts necessary to fulfill capital requirements to open an Al's Sandwich Shop.

13. Restriction of Sales

The Al's Sandwich Shop Franchise Agreement provides that the Franchisee is precluded from offering any products or services not specifically approved in advance by Franchisor. A violation of this restriction may result in termination of the franchise relationship. This requirement has been imposed to ensure uniformity in services and product quality among all Al's Sandwich Shop franchises.

The Franchisee is not limited to the customers it may sell to, but is restricted to sales from the franchise location and may not, without explicit authorization of the Franchisor, open or operate another location.

A Franchisee is not granted an exclusive area. The Franchisor does not promise or grant any Franchisee the right to operate his or her business on an exclusive or partially exclusive basis in any city, town, township, or area of a state. Although the policy of the Franchisor to date has been to appoint only a limited number of Franchisees per state, each within a distinct market area, the Franchisor makes no guarantees, warranties, or representations that a Franchisee will not be located within the specific geographic proximity of another Franchisee. Any representations to the contrary cannot and must not be considered valid, since these types of representations cannot and will not be honored by the Franchisor. On the other hand, the Franchisee is not restricted as to area in which it may solicit customers. Franchisor assigns franchises at its own discretion and reserves the right to assign as many franchises as are necessary to fulfill the business potential of any geographic area.

14. Personal Participation Required of the Franchisee in the Operation of the Franchise

Franchisor does not require the Franchisee or, in the case of a corporation, any person affiliated with the Franchisee to participate personally in the direct operation of the Franchise.

15. Termination, Cancellation, and Renewal of the Franchise

By Franchisee

The initial term of the Franchise Agreement is for 10 years. At the expiration of the initial Agreement, and if the Franchisee is not in default of the terms of the agreement, the Franchi-

see shall have the right to renew the Agreement for continuing 10 year terms by executing the then-current standard Franchise Agreement. The Agreement in effect at the renewal period may differ from that presently used by Franchisor. If the Franchisee desires to renew the Franchise Agreement, he must give notice to Franchisor not less than 6 months nor more than 1 year prior to the expiration of the initial Franchise Agreement. In the event that the Franchisee has not elected to renew the Franchise Agreement then in effect, this agreement shall automatically terminate at the end of the franchise term without any further action by either party. Neither the Franchise Agreement nor the relationship between the parties may be modified during the term of the Agreement except in writing and signed by both parties. Should the Franchisee desire to renew the Franchise Agreement, he or she must not be in default under any of the provisions of the then-existing Franchise Agreement. If Franchisee desires, he or she may sell the Franchise. Franchisee may transfer the Franchise Agreement under the following terms and conditions:

- a. Franchisee shall give at least 30 days prior written notice of Franchisee's intention to effect any such transfer.
- b. Franchisor approves the buyer in writing; such approvals will not be unreasonably withheld.
- c. Franchisee pays to Franchisor all monies due prior to completion of the sale.
- d. Buyer agrees to complete the training program required by Franchisor and to pay the expenses as specified in Section 18.
- e. Buyer signs a current Franchise Agreement, and Buyer will not be required to pay an "Initial Franchise Fee."
- f. Franchisor receives the sum of \$2,500 to cover the Franchisor's expenses in connection with the transfer.
- g. Franchisee grants to Franchisor a "First Right of Refusal" in which Franchisor may match the buyer's offer and purchase the business; and Franchisee by the Franchise Agreement will offer a "First Right of Refusal" to Franchisor, which allows 30 days for Franchisor to match the assignee's offer and notify Franchisee of intent to purchase the franchise. Franchisee shall provide, in written form, the offer of the proposed assignee for Franchisor's review. Same shall be done *in writing* and shall be sent *certified mail, return receipt requested*. Franchisor may then purchase the franchise upon the same terms and conditions offered by the proposed assignee. Failure of Franchisor to exercise this right within 30 days following receipt of the written offer shall thereafter permit Franchisee to proceed with the sale to the proposed assignee. Any change in the terms between the proposed assignee and the Franchisee shall be considered a new offer that must be submitted to the Franchisor subject to the procedures set forth herein. In the event Franchisor wishes to exercise his right of first refusal, Franchisor shall notify the Franchisee *in writing, certified mail, return receipt requested*, or by in-person notification.
- h. In the event of the death or incapacity of the Franchisee this Franchise Agreement shall be assigned to the Franchisee's heirs, who would be required to complete the Franchisor's then-current training program at the costs specified in Section 18.

By Franchisor

Franchisor may terminate the Franchise Agreement if Franchisee does not abide by all the terms and conditions of the Franchise Agreement, and if in default, does not correct same within 15 days of written notification by Franchisor. The Franchisor will also terminate the

Franchisee in the event that the Franchisee declares bankruptcy, becomes insolvent, or appoints a receiver for any portion of his property. Upon termination of the Agreement, Franchisee shall cease to be a Franchisee and will:

- i. Promptly pay Franchisor all monies due.
- j. Immediately stop using all Franchisor's signs, names, logos, marks, colors, telephone listings, advertising, and all other materials, systems, and methods identified with Franchisor.

It should be noted that a covenant not to compete is part of the Franchise Agreement and prohibits a Franchisee from engaging in any retail sandwich business during the term of the Agreement.

Covenant of Nondisclosure

The Franchisee, in the course of association with Al's Sandwich Shop, will obtain knowledge of valuable information, trade secrets, marketing methods, business affairs, recipes, and methods of doing business. The Franchise Agreement will require that all information transferred from Franchisor to Franchisee be considered strictly confidential and that Franchisee shall not, directly or indirectly, make available to any person, firm, corporation, or association such confidential information as described in this paragraph without the specific written consent of the Franchisor. This covenant of nondisclosure extends only to that information and those methods of doing business that are not known by independent third parties. A Franchisee will agree not to circumvent, bypass, or obviate the rights of the Franchisor by doing business directly with any supplier to whom Franchisee has been introduced by Franchisor without the advance written consent of the Franchisor. Failure to comply with this provision will be grounds for immediate termination of the Franchise Agreement.

16. Statistical Information Concerning the Number of Franchises (and Company-Owned Outlets)

With respect to the Franchisor and as to the particular names and business being offered, the following statistical information is offered:

- a. 2 franchises were in operation at the end of the preceding fiscal year.
- b. 1 company-owned outlet was operated at the end of the preceding fiscal year; the company as of this date has awarded 2 franchises.
- c. Names, addresses of Franchisees, and telephone numbers of Franchise units.
- d. No franchises were voluntarily terminated or not renewed by Franchisees within or at the conclusion of the term of the Franchise Agreement, during the preceding fiscal year.
- e. No franchises were reacquired by purchase by the Franchisor during the term of the Franchise Agreement, and upon the conclusion of the term of the Franchise Agreement, during the preceding fiscal year.
- f. No franchises were otherwise reacquired by the Franchisor during the term of the Franchise Agreement, and upon the conclusions of the term of the Franchise Agreement, during the preceding fiscal year.
- g. No franchises were refused renewal of the Franchise Agreement or other agreements relating to the franchise during the preceding fiscal year by the Franchisor.

- h. No franchises were canceled or terminated by Franchisor during the term of the Franchise Agreement, and upon conclusion of the term of the Franchise Agreement, during the preceding fiscal year.

17. Site Selection

The Franchise Agreement provides that the Franchisee is precluded from establishing a Franchise in a territory not specifically approved by the Franchisor. The site selection process is assisted by the Franchisor and must be approved by the Franchisor and the Franchisee.

The proposed location for the Franchisee's Al's Sandwich Shop and the terms of the lease, sublease, or other document pursuant to which it is acquired must be approved in writing by Franchisor prior to the Franchisee entering into the lease, sublease, or other agreement pursuant to which the Franchisee is given the right to use the premises.

The lapse of time between the signing of the Franchise Agreement or the agreements relating to the franchise and commencement of the Franchisee's business is best estimated by the Franchisor to be 3 to 6 months. Obtaining zoning permits, variances, etc., will be the responsibility of Franchisee, should such permits not be in place or not be handled by landlord. Although the Franchisor does provide substantial site location assistance, the ultimate responsibility for securing a location/lease is that of the Franchisee. Franchisee may not hold the Franchisor responsible for failure to secure a location/lease. In any event Franchisee shall be required to open his or her business no later than 12 months after the signing of the Franchise Agreement. If the franchise unit has not been opened within 12 months, the Franchisor may, at its sole discretion, elect to terminate this agreement, and return to Franchisee the franchise fee minus reasonable expenses incurred in assisting the Franchisee over that time period. The Franchisor assists the Franchisee in site locating and lease negotiation but does not warrant any amount of earnings in association with any specific site.

The signing of the Franchise Agreement does not restrict Franchisor from assigning other applicants' rights to open Al's Sandwich Shop within the general geographic area designated in the Franchise Agreement. The geographic area designation and the signing of the Franchise Agreement simply reserves space for one franchise unit for the Franchisee within the general geographic area selected by Franchisee and permits the Franchisee to go forward with attempting to locate a site for the Franchisee's store within the designated area. Other Franchisees of Franchisor may have the right to open Al's Sandwich Shops within the same geographic area as the Franchisee. The first Franchisee to sign a lease for a site acceptable to Franchisor will be allowed to open that store. Neither the date of the receipt of franchise deposit by franchisor, the date the application is approved by Franchisor, the date of the signing of the Franchise Agreement, nor any other event gives any Franchisee exclusive rights, priority, or other preferences in locating a store site or in connection with the timing of the opening of the Franchisee's Al's Sandwich Shop. Should Franchisor present to the Franchisee a prospective store location within the geographic area approved for the Franchisee, Franchisor is free to offer the location to other Franchisees until such time as Franchisee has signed a lease or option to lease drafted by the landlord specific to the site presented to Franchisee.

18. Training Programs

A 12-day training program for Franchisees will be conducted at the Corporate Headquarters, and continuing support is provided for Franchisees during the grand opening at the franchise location. Al's Sandwich Shop requires all new Franchisees to complete the training program prior to opening the business. The Franchisee may designate a manager of the business to attend and complete the training program in lieu of the Franchisee's personally attending.

Instruction will be given by Al Smith and/or his authorized representatives. Instruction will cover but not be limited to management and training in dough preparation, special patented sauce preparation, pie making, oven operation, operation, inventory control, advertising, accounting, displays, employee relations, basic techniques of management, and other skills. Franchisee shall be responsible for all transportation, meals, and living expenses incurred in attending the program. A night in a hotel in the Phoenix, Arizona, area will require approximately \$50 to \$55 in costs. The Franchisee should expect to spend approximately \$15 to \$20 per day for meals.

Franchisee agrees to attend any and all pre-opening meetings required by Franchisor in Franchisee's local area. Schedules and duration of training visits to Franchisee's business location will be determined at Franchisor's sole discretion.

19. Public Figure Involvement in the Franchise

The name of a public figure is not used in connection with a recommendation to purchase this franchise, nor as a part of the name of the franchise operation. No public figure is involved with the management of the Franchisor.

20. Financial Information Concerning the Franchisor

A financial statement is attached.

Franchise Agreement

Agreement made this _____ day of _____, 19____, by Al's Sandwich Shop under the laws of the State of Arizona located at 777 Bob Street, Phoenix, AZ 85032 (hereinafter called

Franchisor) and _____

whose principal address is: _____

(hereinafter called Franchisee) as follows:

Recitals

Franchisor is the owner of the service mark Al's Sandwich Shop and is the Franchisor and operator of sandwich restaurants specializing in sub-sandwich and pocket sandwiches. Franchisor has developed valuable products, formats, procedures, and practices used in the operation of those restaurants in which the Franchisee will receive complete training. The Franchisee is hereby granted the right to use the Al's Sandwich Shop name and the marks and designs associated therewith. Franchisor is developing a chain of units bearing the Franchise name and which are designed, built, decorated, and operated in accordance with Franchisor's requirements and format in order to create and maintain a unique image and appeal to the public. In this regard, Franchisor must maintain control over the format, design, decor, equipping, fixturing, stocking, sales practices and procedures, advertising and promotion of the operation of Al's Sandwich Shops.

All trademarks, trade names, service marks, logotypes, and other commercial symbols as well as processes, trade secrets, trade practices, copyrights, patents, manuals, forms, formats, advertising and promotional material and practices, operating practices and procedures, training materials, goodwill, and all other items, tangible or intangible, used presently or in the future in connection with this franchise and with Al's Sandwich Shop units are referred to in this Franchise Agreement as "*the assets*" and shall remain the property of Franchisor.

1. Grant of Franchisee

Upon payment of the "Initial Franchise Fee" described in Appendix A, attached to and made part of this Agreement, as well as the other fees set forth therein, Franchisee shall have the right, subject to the terms and conditions of this Agreement, to operate an Al's Sandwich Shop (the Franchise).

2. Term

This agreement is for an initial term of ten (10) years. If Franchisee is not then in default, Franchisee shall have the right to renew this Agreement for additional ten (10) year consecutive terms. Renewal must be executed in writing and signed at least six (6) months but not more than one (1) year prior to expiration of each term. Renewal shall be accomplished by signing the Franchisor's then current Franchise Agreement. At the time of renewal, there shall be no additional "Initial Franchise Fee" payable by current Franchisee. If, at least six (6) months before the expiration of any term, Franchisee has not executed Franchisor's then current Franchise Agreement, the existing Agreement shall automatically terminate as its own conclusion without the need for any further writing between the parties.

3. Territory

Franchisee is awarded the right to operate the Franchise from within the following general marketing area and no other, the specific restaurant location to be within said territory.

The address of the restaurant location shall be inserted herein upon Franchisee signing a lease for said location.

A Franchisee is not granted an exclusive area. The Franchisor, does not promise or grant any franchisee the right to operate their business on an exclusive or partially exclusive basis in any city, town, township, or area of a state. Although the policy of the Franchisor to date has been to appoint only a limited number of franchisees per state, each within a distinct market area, the Franchisor makes no guarantees, warranties, or representations that a franchisee will not be located within a specific geographic proximity of another franchisee. Any representations to the contrary must not be considered valid since these types of representations cannot and will not be honored by the Franchisor. On the other hand, the Franchisee is not restricted as to area in which it may solicit customers. Franchisor assigns franchises at its own discretion and reserves the right to assign as many franchises as are necessary to fulfill the business potential of any geographic area.

Franchisee agrees to open his franchise unit no later than twelve (12) months following the date of this agreement except for delays beyond the control of Franchisee. In the event same is not opened within said time, Franchisor, at its sole discretion, may elect to terminate this agreement and return to Franchisee his Franchise fee, minus reasonable expenses incurred in assisting the franchisee over the same time period. Franchisor shall then be free to assume the lease for the location in question and either operate or resell same. In the event Franchisor elects to exercise this option, Franchisee's sole entitlement shall be the refund of this franchise fee.

The proposed location for the Franchisee's Al Sandwich Shop and the terms of the lease, sublease, or other document pursuant to which the location is acquired must be approved in writing by Franchisor prior to the Franchisee entering into the lease, sublease, or other agreement pursuant to which the Franchisee is given the right to use the premises. Approval of the lease and location are not to be considered guarantee of success. Franchisee is responsible to satisfy himself as to the choice of the location. Approval by the Franchisor is only to the fact that the location will satisfactorily accommodate Al's Sandwich Shop.

Franchisee understands and agrees that although the Franchisor does offer site location assistance, the representatives or agents of the Franchisor have represented to the Franchisee that the ultimate responsibility for securing and maintaining retail leases or locations for the Franchisee's business is the sole responsibility of the Franchisee; and that neither Al's Sandwich Shop nor its representatives or agents can be held responsible for the failure of the Franchisee to secure a retail location/lease in his own behalf. Franchisee also understands that any retail lease secured through the direct efforts of the Franchisor, carries no representation or warrant of earnings on the part of the Franchisor.

4. Obligations of Franchisor

In return for payment of the franchise fee and so long as no default by Franchisee has occurred, the Franchisor shall provide, at times and in methods and manners as determined by Franchisor in its discretion, the following services to the Franchisee:

- a. Use of the names, marks, logos and copyrighted materials of the Franchisor for the duration of this agreement;

- b. Operations Manual;
- c. Training at Franchisor's location;
- d. Lease negotiation and guidelines;
- e. Restaurant layout and equipment selection, pre-opening assistance;
- f. Trade and operating procedures and methods (which are to be maintained confidential and secret by the Franchisee);
- g. Ongoing telephone support and assistance;
- h. Continuing research and development;
- i. Marketing assistance;
- j. Regional advertising program(s) (utilizing funds provided by Franchisees);
- k. Making available printing and supplies.

5. Advertising Fees

Franchisee shall pay 4% of his monthly gross sales to Franchisor or Franchisor's approved advertising agency with payments due on the first day of each month. Late charges will be assessed for each day for which the advertising fee is late beyond the due date in the amount of ten dollars per day or 5% per day of the advertising fee due. Franchisor shall collect the late fee which is greater and will advise Franchisee which sum is due. Failure of the Franchisee to pay the late fee may be grounds for termination of this Agreement. Franchisee shall be considered in default of this agreement should payment of this advertising fee not be received ten days after the date due. The Company makes no guarantees and does not insure that any particular Franchisee will benefit directly or pro-rate from its contributions to the Al's Sandwich Shop Corporate Advertising Fund.

Franchisee agrees to conduct all advertising and promotional activities in accordance with the requirements of Franchisor, as reflected in its directives or as otherwise communicated to Franchisee. Franchisor has final approval on all ad copy and promotional campaigns initiated by Franchisee which must be approved in writing, in advance by Franchisor. Failure by Franchisee to fulfill advertising requirements of Franchisor or to submit advertising copy prior to its use shall constitute a violation of this agreement and be grounds for immediate termination as no cure of this breach is possible. It is agreed and understood that all service marks and trademarks are the property of the Franchisor and that, therefore the Franchisor must control all use of such marks. Franchisor will have the authority to preclude franchisee from utilizing media which overlap on the territory of another franchisee or to require franchisees with adjoining or near territories to cooperate in their advertising efforts/programs.

6. Standardization of Franchisee's Organization

In order to promote uniformity and excellence of products and services within the franchised system, Franchisee agrees to operate its franchise in accordance with the following standard terms and conditions:

- A. **Standard Product Line:** Franchisee agrees to sell only those items or products specified by Franchisor and in the manner and method specified by Franchisor. In the event that Franchisor wishes to expand or modify the products or services offered for sale within the system, upon written notice from Franchisor, Franchisee agrees to

expand or modify the products or services offered for sale and agrees to acquire the equipment necessary for such change or modification within one hundred eighty (180) days of written notification by Franchisor. To maintain standardization and high quality of the Al's Sandwich Shop product, the Franchisee agrees to purchase all products and supplies from the Franchisor. Violation of this provision, and all provisions requiring pre-approval by Franchisor of advertising, constitutes grounds for immediate termination as Franchisee is incapable of curing such a default.

- B. **Standard Equipment and Supplies:** Franchisee agrees to operate the franchise in accordance with standards established by Franchisor, to include, but not limited to, facility cleanliness and maintenance, hours of operation, signs, equipment, replaceable supplies and in compliance with all applicable Federal, State and local laws, ordinances and regulations. To promote uniformity throughout the system, Franchisee agrees to use only those displays, signs, equipment and products and services approved in advance and in writing by Franchisor.

All required equipment must be purchased by Franchisee from any source so long as said equipment meets current standards and specifications of Franchisor, and is in compliance with all applicable Federal, State and local laws and health codes. The supplier of said equipment shall be approved in advance and in writing by Franchisor, which approval shall not be unreasonably withheld.

- C. **Standard Service:** Franchisee agrees to maintain the quality of service in his franchise in accordance with the high standards established by Franchisor and in compliance with all applicable Federal, State and local laws, ordinances and regulations.
- D. **Standard Franchise Center:** Franchisee agrees to abide by Franchisor's standards of maintenance and cleanliness and to maintain Al's Sandwich Shop in good condition and with a clean and neat appearance. Franchisee shall not undertake any alterations, modifications, or additions to Al's Sandwich Shop which would materially alter its appearance or function without the prior written consent from Franchisor. Failure to give written approval within 45 days after receipt of notice from Franchisee, which notice shall be sent certified mail, return receipt requested, shall constitute approval of the proposed plans. Routine repairs shall not require such approval of Franchisor.
- E. **Standard Business Weeks, Hours, Etc.:** Franchisee shall maintain sufficient inventory, supplies, and staff to keep its franchise in normal operation to satisfy local customer demand for fifty-two (52) weeks per year, seven (7) days per week in a retail location (except such periods as it may be required by law or permitted by Franchisor to be closed).
- F. **Management and Employee Standards:**
1. Franchisee will assure that all employees, engaged in the operation of this Franchise during working hours shall dress conforming to Franchisor's standards, shall present a neat and clean appearance in conformance with reasonable standards of Franchisor and shall render competent, efficient service to the customers of the Franchise.
 2. Franchisee agrees that it shall devote best efforts in directing the day-to-day operations and development of the Franchise. Franchisee may, however, delegate the day-to-day operation of the Franchise to a manager so long as said manager is approved by the Franchisor in advance and said manager successfully completes the training program offered by the Franchisor.

G. Standard Operation Procedures and Reports:

1. Books and Accounts: Franchisee agrees to establish and maintain books, accounts, records, order receipts, etc. required by Franchisor and by good business procedures and particularly to keep and maintain accurate records of purchases, gross and net sales in a manner designated by Franchisor. To promote the standardization and uniformity of all franchise units and such good business procedures, Franchisee agrees that such books, accounts, records, etc., shall be open for inspection and audit by Franchisor or its representative at all reasonable times. In the event Franchisor conducts an audit of Franchisee's operations, and finds that Franchisee has failed, for whatever reason(s), to properly report its sales to Franchisor then Franchisee shall pay the cost of said audit. Franchisee shall pay any deficiency within 15 days of the completion of said audit in the event the error is 3% or greater.
2. Standard Advertising and Promotion: Franchisee agrees that all local advertising and promotional plans or programs if other than those provided by Franchisor, which feature the use of franchisor's trademark, service marks, slogans or trade names, and any other trademarks, service marks, slogans or trade names, which may hereafter be used by Franchisor shall be submitted to and approved in writing by Franchisor before release or use thereof.
3. Standard Systems: Franchisee agrees to follow all Al's Sandwich Shop marketing and operating systems in their entirety and with no deviations from these formats unless approved in advance by Franchisor.

Franchisee agrees that the violation of any such standards or requirements enumerated under this paragraph or elsewhere within this Agreement shall be deemed to be a material breach of this Agreement and shall give Franchisor the right to terminate this Agreement according to the provision of paragraphs 9 and 10 below.

Franchisee further agrees that, in order to maintain the high quality and uniform standards associated with the Franchise and to protect its good will and reputation, to permit Franchisor during business hours, to inspect the Franchise facility, confer with Franchisee and Franchisee's employees and customers, check inventories, methods, books and records, and perform any other inspection deemed by Franchisor to be necessary to protect the standards of quality and uniformity of the Franchise and Franchisee's performance under this Agreement.

4. Insurance: Franchisee agrees to procure and maintain public liability and property damage insurance covering the operation of the business and the location where the business is conducted, with insurance carriers reasonably acceptable to Franchisor in a minimum amount of one million dollars (\$1,000,000) combined single limit and real and personal property insurance including fire and extended coverage on an all risk replacement cost basis. Franchisee agrees to carry such insurance as may be required by the lease of Franchisee's location or by any lender or equipment lessor of Franchisee and such workers compensation insurance as may be required by applicable law. Franchisee shall, if requested by Franchisor, add Franchisor to all insurance contracts as an additional insured under the insurance policies, the cost of which to be paid by Franchisee.

7. Indemnity

Franchisee agrees that it will indemnify and hold harmless Franchisor from all fines, suits, proceedings, claims, demands, judgments, or other liability or costs of any kind arising from or otherwise connected with Franchisee's operation of its franchise, except for such liability or costs arising from actions or activities of Franchisor.

8. Change of Ownership

Franchisee may, with Franchisor's prior written approval, assign this Agreement if:

- a. Franchisee agrees to give at least thirty (30) days prior written notice of Franchisee's intention to effect any such transfer.
- b. Assignee submits Franchisor's then current franchise application and Franchisor approves assignee in writing, which approval will not be unreasonably withheld. For the assignee to receive approval he must be financially capable of purchasing and operating the franchise.
- c. Assignee agrees to successfully complete the training program required of all new Franchisees.
- d. Franchisee pays to Franchisor all monies due and cures any existing defaults with regard to this Agreement or the relationship between the parties or otherwise makes arrangements for same, said arrangements to be made in writing and signed by all parties hereto.
- e. Franchisor receives the sum of Two Thousand Five Hundred (\$2,500) Dollars to cover the Franchisor's expenses in connection with the transfer.
- f. Upon the death or incapacity of Franchisee this agreement may be assigned to the heirs of the Franchisee so long as the heirs complete the training program offered by the Franchisor according to this agreement.
- g. Franchisee by this agreement has offered a "First Right of Refusal" to Franchisor which allows 30 days for Franchisor to match the assignee's offer and notify Franchisee of intent to purchase the franchise. Franchisee shall provide, in written form, the offer of the proposed assignee for Franchisor's review. Same shall be done in writing and shall be sent certified mail, return receipt requested. Franchisor may then purchase the franchise upon the same terms and conditions offered by the proposed assignee. Failure of Franchisor to exercise this right within 30 days following receipt of the written offer shall thereafter permit Franchisee to proceed with the sale to the proposed assignee. Any change in the terms between the proposed assignee and the Franchisee shall be considered a new offer which must be submitted to the Franchisor subject to the procedures set forth herein. In the event Franchisor wishes to exercise his right of first refusal, Franchisor shall notify the Franchisee in writing, certified mail, return receipt requested, or by in-person notification.

9. Cancellation or Termination

Neither this agreement nor the relationship between the parties may be modified during the term of this Agreement unless such modifications are set forth in writing and signed by both parties. Franchisor may terminate this Agreement in the event Franchisee is in default of any of the provisions hereof and, with the exceptions hereinafter noted shall justify immediate termination, in the event that default is not remedied within 60 days following receipt of written notice, served by certified mail, return receipt requested. The following shall in Franchisor's discretion, justify immediate termination: (1) If Franchisee shall declare bankruptcy, voluntary or involuntary, or shall become insolvent, shall have a receiver appointed for any portion of its property, shall make general assignment for the benefit of its creditors; (2) If Franchisee shall voluntarily abandon this Agreement; (3) If Franchisee shall perform such act of default, or otherwise be in violation of this Agreement, which act cannot be cured within the 60 day notice period; (4) If Franchisee shall violate any of the advertising policies of the

Franchisor. Franchisor reserves the right to sell or assign, in whole or in part, its interests and/or obligations to the Franchisee under this Agreement.

Non-Disclosure

The Franchisee, in the course of its association with Al's Sandwich Shop, will obtain knowledge of valuable information, trade secrets, marketing methods, business affairs, recipes and methods of doing business. All information transferred from Franchisor to Franchisee shall be considered strictly confidential and Franchisee agrees that it shall not, directly or indirectly, make available to any person, firm, corporation or association such confidential information as described in this paragraph without the specific written consent of the Franchisor. This covenant of non-disclosure extends only to that information and those methods of doing business which are not known by independent third parties. Franchisee agrees not to circumvent, bypass or obviate the rights of the Franchisor by doing business directly with any supplier to whom Franchisee has been introduced by Franchisor without the advance written consent of the Franchisor. Failure to comply with this provision will be grounds for immediate termination of the Franchise Agreement.

10. Obligations of the Franchisee upon Termination

In the event of termination or non-renewal of this Agreement, Franchisee shall immediately upon the effective date of termination or non-renewal:

- A. Discontinue the use and practice of any and all of Franchisor's proprietary and confidential information including methods, designs, marketing techniques, etc., in connection with the operation of the business.
- B. Discontinue the use of any and all of Franchisor's trademarks, service marks, slogans and trade names and any other trademarks, service marks, slogans or trade names which may hereafter be used by Franchisor, or any colorable imitations or variations thereof. This shall include the immediate cessation of use of all telephone numbers, advertising products, signs and other materials which bear such trademarks, service marks, slogans and trade names. All telephone numbers used by Franchisee shall, at Franchisor's discretion, be assigned to Franchisor should Franchisor elect to take the telephone numbers. Franchisor shall pay the cost of same from the date of assignment.
- C. Cease from representing to the public and trade contacts that Franchisee is or was a member of the Franchisor's systems.
- D. Have a full audited accounting prepared within thirty (30) days of the effective date of non-renewal or termination and submitted to Franchisor, detailing all monies due Franchisor pursuant to any requirement under this Agreement and to make payment in full.

11. Relationship of the Parties

Franchisor and Franchisee are strictly Franchisor and Franchisee. Franchisee is an independent contractor, and any act of omission by either party shall not obligate the other. Franchisee shall protect, indemnify and save Franchisor harmless against any and all claims (including punitive damages), costs and liabilities of any kind in connection with Franchisee's operation of the Franchise. Franchisee shall, upon Franchisor's request, post notice that Franchisee is a Franchisee of Al's Sandwich Shop.

Franchisee understands and agrees that fulfillment of any and all obligations of Franchisor based on any and all written understandings or based on any oral understandings adjudged to be binding shall be the sole responsibility of Al's Sandwich Shop and no agent, representative, nor any individual associated with Franchisor shall be held responsible. This is an integral part of this Agreement. No oral representations of Franchisor, or its agents shall be binding. This written agreement incorporates all representations between the parties. Do not sign this Agreement if there is any question concerning its contents or any representations made.

12. Covenant Not to Compete

Franchisee acknowledges that as a participant in the Franchise System, Franchisee will receive confidential information and materials, trade secrets, and the unique methods, procedures and techniques developed by Franchisor. Therefore to protect Franchisor and all Franchisees of the Franchisor, Franchisee represents and warrants: that while a Franchisee of Franchisor, and for a period of three years thereafter, Franchisee shall not engage in any retail sandwich business other than the one in this Agreement. Engaging shall include, but not be limited to, activities whether direct or indirect, as an individual proprietor, partner, stockholder, director, officer, principal, broker, agent, employee, consultant, lender or otherwise. If Franchisee is found to be engaging in a similar endeavor while a Franchisee, Franchisee agrees to pay to Franchisor, damages equal to 15% of the Gross Sales generated by the endeavor. Payment of said damages shall not preclude Franchisor from filing any other claims it believes is appropriate, to include injunctive relief in the event of a violation of this provision.

13. Waiver

- A. A waiver of any violation of this Agreement shall not impair Franchisor's or Franchisee's rights with respect to any further violations; and
- B. No delay or omission on the part of Franchisor or Franchisee to exercise any right arising from any violation of this Agreement shall impair their rights as to any future violations.

14. Arbitration

Any unresolved controversy arising out of this Agreement will be, if either party requests, decided by Arbitration in the County of Maricopa, State of Arizona, by a panel of three (3) independent Arbitrators in accordance with the rules then in effect, of the American Arbitration Association, with both parties sharing equally the total payment of all fees and expenses of the arbitrators. The decision of the Arbitrators may be filed as a judgment in the Superior Court of Maricopa and shall be binding in any other jurisdiction.

15. Notice

All notices under this Agreement shall be in writing and delivered by registered or certified mail, return receipt requested, addressed to the party's last known address and shall be considered lawful and valid process.

16. Severability

If any portion of this Agreement is held to be invalid or unenforceable, the remaining portion shall remain in full force and effect as if it has been signed with the invalid portion omitted.

17. Jurisdiction, Venue and Controlling Law

This Agreement shall be governed by and enforced in accordance with the laws of the State of Arizona. Franchisee and Franchisor consent to the jurisdiction and venue of any court of general jurisdiction, County of Maricopa, State of Arizona and any legal proceedings arising out of this Agreement shall be brought only in such court. This is an integral part of this Agreement.

18. Entire Agreement

This Franchise Agreement contains the entire Agreement of the parties. There are no representations either oral or written, except those contained in this Agreement.

Franchisee understands, acknowledges, and agrees that Al's Sandwich Shop as well as any and all representatives and/or agents with whom Franchisee has met have not and are not making any guarantees as to the extent of the Franchisee's success, and have not and are not in any way representing or promising any specific amounts of earnings or profits in association with the Franchisee's new business.

Franchisee acknowledges that he has received and reviewed, at least ten (10) business days prior to entering into this Agreement, Franchisor's FTC Disclosure Statements or such other disclosure statements as required by applicable state law.

19. Place of Execution

It is agreed that this Agreement was executed at the Franchisor's place of business in Maricopa County, Arizona.

Date: _____
Al's Sandwich Shop, Inc.

Date: _____
(Franchisee)

Date: _____
(Franchisee)

I, Franchisee hereby acknowledge that I have read this franchise agreement completely and fully understand its requirements and obligations.

Date: _____
(Franchisee)

Appendix A

Standard Program*

A. Initial Franchisee Fee	\$16,000
B. Fixtures, signs, equipment	\$65,000 supplies
C. Inventory	\$10,000
D. Lease deposits and 1st month's rent	From \$5,000 to \$10,000
E. Supplies	\$600
F. Grand Opening Advertising	\$2,200
G. Insurance, Licenses Utility Deposits	\$2,200
H. Buildout and leasehold design and improvements	\$35,000
From \$136,000 to \$140,000†	

It is recommended that Franchisee have at least an additional \$35,000 available as reserve capital after the business opens. Allowable storefront signage will vary greatly from one site to the next due to township requirements, zoning, etc. All signs must conform to Franchisor's approved standards regarding design, logos, colors, etc. Note: Franchisee should also have adequate funds available to cover living and household expenses in addition to adequate operating capital. The amount necessary shall vary according to each Franchisee's personal needs, mode and manner of living.

Receipt for Initial Franchise Fee

Franchisor acknowledges receipt of the sum of _____ as full and total payment of the initial Franchise Fee. The Initial Franchise Fee is deemed earned by Franchisor upon receipt and acceptance of Franchisee's application by Franchisor and the execution of this Agreement. Should Franchisee be disapproved for any reason, Franchisor agrees to refund the initial Franchise Fee. Execution of this agreement by Franchisor shall constitute acceptance of Franchisee's application. The balance of equipment, signs, supplies, fixtures, inventory and deposit payments is payable by Franchisee to Franchisor, landlord and purveyors as needed to meet grand opening and leasehold deadlines and as otherwise requested by Franchisor.

Al's Sandwich Shop _____

Franchisee Address _____ Franchisee _____

Date _____ Franchisee _____

*All amounts other than initial franchise fee are approximate and represent best estimates of opening expenditures. Cost may vary based on size of restaurant, rents, amount of inventory, etc. Capital requirements may be adjusted as necessary but will not exceed those listed herein without approval from Franchisee.

†If Franchisee has indicated on the Franchise Application that the full amount of the investment is not readily available, it is the sole responsibility of Franchisee to secure any financing necessary from third party lending sources in order to satisfy capital requirements of opening an Al's Sandwich Shop. Franchisee hereby agrees to secure such financing. This is an integral part of this agreement.

Appendix B

Equipment Package

Al's Sandwich Shop

Item	Quantity	Model	Description
1.	1	AB540	Oven
2.	1	Custom	10' x 12' Walk-in Cooler w/floor storage rack one side
3.	1	M22	3/4 HP Outdoor Pre-assembled Refrigerator
4.	1	492H	Traulsen 2 Door Refrigerator w/tray slides
5.	1	P49	Table
6.	1	HH22	Eagle 3 bowl S/S sink & Faucet
7.	1	P940	Quart Mixer w/ss bowl, bowl cover and dough hook
8.	1	941	Cheese Shredder Attachment
9.	1	77766	S/S Work Table w/back Splash &S/S Shelf under table
10.	1	BH123	Work Table w/ss top 8 ft.
11.	70		Anodized Bun Pans
12.	1	H40	50# Scale
13.	1	55091	See/Thru Counter Case
14.	1	64222	ICE Machine
15.	2	Custom	2' x 5' Sandwich Holding Cabinets
16.	4	19H2	10 Gal. White Buckets
17.	4	19H3	Lids for above
18.	2	2120	Rolling Pins
19.	2	1460	1/2 Qt. Measuring Cups
20.	15	1691	60 oz. Plastic Pitchers
21.	2	2222	Upright Brooms
22.	1	22223	Lobby Dust Pan
23.	1	33312	Lobby Brooms
24.	1	76767	26 Qt. Combo Mop Bucket
25.	2 DZ.	611	2 oz. Salt & Peppers
26.	3 DZ.	540	6 oz. Slotted Mason Jars

Item	Quantity	Model	Description
27.	1	1298	16 Qt. S/S Bowl
28.	4	2190	Dough Scraper
29.	2	2220	4" Plastic Handle Dough Cutter
30.	12 EA.		Pans 9", 12", & 14" Square Pans Stackable
31.	10	TBases	Standard Table Bases (Black)
32.	36 Chairs	#588	Banquet Chairs Silvertone(SB)
33.	12		Napkin Holders Mini-Mor Nap 13" x 13"
34.	1	Board	MENU Sign (MainStreet) Lited
35.	2	0001	Pot Forks 20"
36.	2	0002	Pot Fork 15"
37.	4	686	8 oz. Ladles
38.	2	684	4 oz. Ladles
39.	1	1084	#1 Can Opener
40.	1	1330	Potato Peeler
41.	1	1542	64 oz. Plastic Scoop
42.	1	3217	10" White Handle Knife
43.	1	3217	6" White Boning Knife
44.	4	2192	Sandwich Server
45.	2	1582	23 Cap Trash Cans
46.	2	1584	Lids for above
47.	8	0022	5 Gal. Clear Buckets
48.	8	0023	Lids for Above
49.	8		Cantilevers Brackets, Supporting Booth Top
50.	9		3' x 3' Table Tops
51.	8		Booth Tops
52.	1		Booster Seat
53.	1		High Chair
54.			Sign Package/Drive-Thru Canopy
55.	2		Cup Dispensers/Spring Loaded

Equipment Package Total Cost.....\$65,000.00