



MINNESOTA
DEPARTMENT OF
COMMERCE

85 7th Place East, Suite 500
St. Paul, Minnesota 55101-2198
www.commerce.state.mn.us
651.296.4026 FAX 651.297.1959
An equal opportunity employer

May 22, 2012

MARISA D FAUNCE
PLAVE KOCH PLC
12355 SUNRISE VALLEY DRIVE SUITE 230
RESTON, VA 20191

Re: F-5468
CBC RESTAURANT CORPORATION
CORNER BAKERY CAFE FRANCHSIE AGREEMENT

Dear Ms. Faunce:

The Annual Report has been reviewed and is in compliance with Minnesota Statute Chapter 80C and Minnesota Rules Chapter 2860.

This means that there continues to be an effective registration statement on file and that the franchisor may offer and sell the above-referenced franchise in Minnesota.

The franchisor is not required to escrow franchise fees, post a Franchise Surety Bond or defer receipt of franchise fees during this registration period.

As a reminder, the next annual report is due within 120 days after the franchisor's fiscal year end, which is December 31, 2012.

Sincerely,

MIKE ROTHMAN
Commissioner

By:

Daniel Sexton
Commerce Analyst Supervisor
Registration Division
(651) 296-4520

MR:DES:dlw

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
REGISTRATION DIVISION
(651) 296-6328

IN THE MATTER OF THE REGISTRATION OF:
CORNER BAKERY CAFE FRANCHSIE AGREEMENT
By CBC RESTAURANT CORPORATION

ORDER AMENDING
REGISTRATION

WHEREAS, an application to amend the registration and
amendment fee have been filed,

IT IS HEREBY ORDERED that the registration dated
September 29, 2006, is amended as of the date set forth below.

A handwritten signature in black ink, reading "Mike Rothman", is written over a horizontal line.

MIKE ROTHMAN
Commissioner
Department of Commerce
85 7th Place East, Suite 500
St Paul, MN 55101

Date: May 22, 2012

UNIFORM FRANCHISE REGISTRATION APPLICATION

File No. F-5468

State of Minnesota
Dept. of Commerce

State: Minnesota

Fee: \$300.00

MAY 21 2012

Rec'd \$ 300

APPLICATION FOR (Check only one):

- ☐ INITIAL REGISTRATION OF AN OFFER AND SALE OF FRANCHISES
☒ RENEWAL APPLICATION OR ANNUAL REPORT
☐ PRE-EFFECTIVE AMENDMENT
☐ POST-EFFECTIVE MATERIAL AMENDMENT

1. Full legal name of Franchisor:
CBC Restaurant Corp.
2. Name of the franchise offering:
"Corner Bakery Café"
3. Franchisor's principal business address:
**12700 Park Central Drive, Suite 1300
Dallas, Texas 75251
(972) 619-4100**
4. Name and address of Franchisor's agent in this State authorized to receive service of process:
**Commissioner of Commerce
85 7th Place East, Suite 500
St. Paul, Minnesota 55101**
5. The states in which this application is or will be shortly on file:
**California, Florida, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York,
North Dakota, Rhode Island, South Dakota, Utah, Virginia, Washington, Wisconsin.**
6. Name, address, telephone and facsimile numbers, and e-mail address of person to whom communications regarding this application should be directed:
**Marisa D. Faunce, Esq.
Plave Koch PLC
12355 Sunrise Valley Drive, Suite 230
Reston, Virginia 20191
703.774.1214 (direct phone)
703.774.1201 (fax)
MFaunce@plavekoch.com (E-mail)**

5-22-12

A/K Amed

12/31 9-29-06

MAY 18 2012



Mr. Daniel Sexton
Franchise Examiner
Minnesota Department of Commerce
85 7th Place East, Suite 500
St. Paul, Minnesota 55101

Re: CBC Restaurant Corp. ("Corner Bakery")
File #: F-5468
Minnesota Franchises Law
Application for Renewal of Franchise Registration

Dear Mr. Sexton:

Enclosed please find an application for renewal of franchise registration submitted on behalf of Corner Bakery to offer and sell franchises in the State of Minnesota.

The application consists of a check for \$300.00 made payable to the "Minnesota Department of Commerce" for the requisite filing fee and the following items:

1. Facing Page.
2. Certification Page.
3. Uniform Consent to Service of Process Form.
4. Corporate Acknowledgment.
5. Franchisor's Costs and Source of Funds Form.
6. Franchise Seller Disclosure Forms for each individual to be engaged in the offer or sale of franchises in the State of Minnesota.
7. One copy of a signed Consent of Accountants.
8. One copy of Corner Bakery's FDD, including all required financial statements and agreements.
9. One copy of Corner Bakery's FDD, which has been redlined to indicate new or revised information.

* * *

Plave Koch PLC
12355 Sunrise Valley Drive (Suite 230)
Reston, Virginia 20191
United States of America

www.PlaveKoch.com

Marisa D. Faunce
MFaunce@PlaveKoch.com
direct phone 703.774.1214
direct fax 703.774.1201

MAY 18 2012

Mr. Daniel Sexton
Page 2



Please contact me if you have any questions or comments regarding the enclosed application. Otherwise, we would appreciate receiving notification of franchise registration for Corner Bakery.

Thank you very much.

Sincerely,

Marisa D. Faunce *MS*

Marisa D. Faunce

Via FedEx
Enclosures
PK 50942.1



May 18, 2012

Mr. Richard Peabody
IFCB Holding Corporadon
770 Tamalpais Drive, Suite 400
Corte Madera, CA 94925

Grant Thornton LLP
One California Street, Suite 2300
San Francisco, CA 94111-5424
T 415.986.3900
F 415.986.3916
www.GrantThornton.com

Grant Thornton LLP agrees to the inclusion in the Franchise Disclosure Document issued by CBC Restaurant Corp on May 18, 2012 of our reports dated April 20, 2012 and March 31, 2011 relating to the consolidated financial statements of IFCB Holding Corporadon and Il Fornaio (America) Corporation as of December 25, 2011 (Successor), December 26, 2010 (Predecessor) and December 27, 2009 (Predecessor) and for the periods from June 10, 2011 through December 25, 2011 (Successor) and December 27, 2010 through June 9, 2011 (Predecessor) and the years ended December 26, 2010 (Predecessor) and December 27, 2009 (Predecessor).

Grant Thornton LLP

CERTIFICATION

I certify and swear under penalty of law that I have read and know the contents of this application, including the Franchise Disclosure Document with an issuance date of May 18, 2012 attached as an exhibit, and that all material facts stated in all those documents are accurate and those documents do not contain any material omissions. I further certify that I am duly authorized to make this certification on behalf of the Franchisor and that I do so upon my personal knowledge.

Signed at Dallas, Texas on March 2, 2012.

CBC Restaurant Corp.

By: _____

Print Name: Blake Bernet

Print Title: Senior Vice President of Development and General Counsel

STATE OF TEXAS)

COUNTY OF DALLAS)

CBC Restaurant Corp.

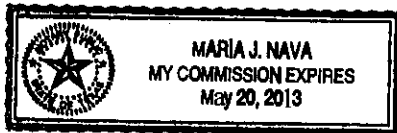
Personally appeared before me this 2nd day of March, 2012, the above-named Blake Bernet, to me known to be the person who executed the foregoing application (as SVP of Development & GC of the above-named applicant) and, being first duly sworn, state upon oath that said application, and all exhibits submitted herewith, are true and correct.

(NOTARIAL SEAL)

Notary Public: _____

My Commission

Expires: _____



UNIFORM FRANCHISE CONSENT TO SERVICE OF PROCESS

CBC Restaurant Corp., a corporation organized under the laws of the State of Delaware (the "Franchisor"), irrevocably appoints the officers of the States designated below and their successors in those offices, its attorney in those States for service of notice, process or pleading in an action or proceeding against it arising out of or in connection with the sale of franchises, or a violation of the franchise laws of that State, and consents that an action or proceeding against it may be commenced in a court of competent jurisdiction and proper venue within that State by service of process upon this officer with the same effect as if the undersigned was organized or created under the laws of that State and had lawfully been served with process in that State. We have checked below each state in which this application is or will be shortly on file, and provided a duplicate original bearing an original signature to each state.

_____ California: Commissioner of Corporations	_____ Rhode Island: Director, Department of Business Regulation
_____ Hawaii: Commissioner of Securities	_____ South Dakota: Director of the Division of Securities
_____ Illinois: Attorney General	_____ Virginia: Clerk, Virginia State Corporation Commission
_____ Indiana: Secretary of State	_____ Washington: Director, Department of Financial Institutions
_____ Maryland: Securities Commissioner	_____ Wisconsin: Administrator, Division of Securities, Department of Financial Institution
<u> X </u> Minnesota: Commissioner of Commerce	
_____ New York: Secretary of State	
_____ North Dakota: Securities Commissioner	

Please mail or send a copy of any notice, process or pleading served under this consent to:

CBC Restaurant Corp.
12700 Park Central Drive, Suite 1300
Dallas, Texas 75251
(972) 619-4100

Dated: March 2, 2012.

CBC Restaurant Corp.

By: _____

Print Name: Blake Bernet

Print Title: Senior Vice President of Development and General Counsel

CORPORATE ACKNOWLEDGMENT

STATE OF TEXAS)
) CBC Restaurant Corp.
COUNTY OF DALLAS)

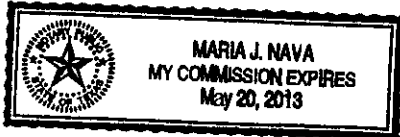
Personally appeared before me this 2nd day of March, 2012, the above-named Blake Bernet, to me known to be the person who executed the foregoing application (as SVP of Development of the above-named applicant) and, being first duly sworn, state upon oath that said application, and all exhibits submitted herewith, are true and correct.

(NOTARIAL SEAL)

Notary Public:

My Commission
Expires:

Maria J. Nava
May 20, 2013



CBC RESTAURANT CORP.

FRANCHISOR'S COSTS AND SOURCE OF FUNDS

1. Disclose franchisor's total costs for performing its pre-opening obligations to provide goods or services in connection with establishing each franchise, including real estate, improvements, equipment, inventory, training and other items stated in the offering.

<u>Category</u>	<u>Costs</u>
Real Estate	\$5,000
Improvements	\$15,000
Equipment	\$3,000
Inventory	\$2,500
Training	\$85,000
Totals	\$110,500

2. State separately the sources of all required funds: Working Capital

RED LINE

FRANCHISE DISCLOSURE DOCUMENT



CBC RESTAURANT CORP.

A Delaware Corporation
12700 Park Central Drive, Suite 1300
Dallas, Texas 75251
(972) 619-4100

franchise@cornerbakerycafe.com
~~www.cornorbnkerycafo-com~~ franchise@cornerbakerycafe.com
www.cornerbakerycafe.com

The franchisee will operate a fast-casual restaurant under the name Corner Bakery Cafe® offering a limited menu of breakfast, lunch and dinner products and featuring artisan breads, salads, sandwiches, soups and baked goods ("Corner Bakery Cafe").

The total amount necessary to begin operation of a Corner Bakery Cafe franchise ranges from approximately ~~\$862,854,000~~ to ~~\$2,472,375,000~~, which does not include the cost of buying or renting the business location. This amount includes \$35,000 to \$43,000 that must be paid to us.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar-days before you sign a binding agreement with, or make any payment to, us or our affiliates in connection with the proposed franchise sale or sooner if required by applicable state law. 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 Craig Shorwood Jonathan Benjamin at CBC Restaurant Corp., 12700 Park Central Drive, Suite 1300, Dallas, Texas 75251 or (972) 619-4100.

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

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

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

Issuance Date: ~~March 31, 2011, as amended June 10, 2011 and July 19, 2011~~ May 18, 2012

STATE COVER PAGE

Your state may have a franchise law that requires us to register or file with a state administrator before offering or selling franchises in your state. REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.

Call the state franchise administrator listed in Exhibit A for information about us or about franchising in your state.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following RISK FACTORS before you buy this franchise:

1. THE FRANCHISE AND AREA DEVELOPMENT AGREEMENTS REQUIRE YOU TO RESOLVE DISPUTES WITH US BY LITIGATION ONLY IN THE STATE WHERE OUR PRINCIPAL OFFICES ARE LOCATED, WHICH CURRENTLY IS TEXAS. OUT-OF-STATE LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT ALSO MAY COST YOU MORE TO SUE US IN TEXAS THAN IN YOUR OWN STATE.
2. THE FRANCHISE AND AREA DEVELOPMENT AGREEMENTS PROVIDE THAT TEXAS LAW GOVERNS THE AGREEMENTS. THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

This disclosure document is for use in all states and the District of Columbia. Certain states require franchisors to make additional disclosures related to the information contained in this disclosure document. Those disclosures are contained in Exhibit I to this disclosure document.

Effective Dates: See the next page for the state effective dates.

STATE EFFECTIVE DATES

The following states require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This Franchise Disclosure Document is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

California: April 22, 2011, as amended July 21, 2011
~~Hawaii: April 11, 2011, as amended June 20, 2011 and July 20, 2011~~
~~Illinois: April 4, 2011, as amended June 13, 2011 and July 21, 2011~~
~~Indiana: April 1, 2011, as amended June 10, 2011 and July 10, 2011~~
~~Hawaii:~~
~~Illinois:~~
~~Indiana:~~
Maryland: April 7, 2011, as amended June 10, 2011 and July 19, 2011
Michigan: March 31, 2011, as amended June 10, 2011 and July 19, 2011
Minnesota: April 6, 2011, as amended June 14, 2011 and July 25, 2011
New York: May 5, 2011, as amended July 20, 2011 and July 29, 2011
North Dakota: April 4, 2011, as amended July 14, 2011 and August 25, 2011
Rhode Island: April 28, 2011, as amended June 13, 2011 and July 22, 2011
South Dakota: April 4, 2011, as amended June 10, 2011 and July 10, 2011
Virginia: April 28, 2011, as amended July 10, 2011 and August 22, 2011
Washington: April 10, 2011, as amended June 13, 2011 and July 21, 2011
Wisconsin: April 4, 2011, as amended June 13, 2011 and July 21, 2011

In all other states, the effective date of this Franchise Disclosure Document is the issuance date of March 31, 2011, as amended June 10, 2011 and July 19, 2011 May 18, 2012.

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EXHIBITS

- A. List of State Administrators
- B. Agents for Service of Process
- C. Area Development Agreement
- D. Franchise Agreement
- E. General Release
- F. Confidentiality Agreement
- G. List of Franchised Locations
- H. Financial Statements
- I. Additional Disclosures Required by Certain States
- J. Compliance Questionnaire

RECEIPTS

ITEM 1

THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

To simplify the language in this disclosure document, "we," "us" or "CBC" means CBC Restaurant Corp., the franchisor. "You" means the person or legal entity who buys the franchise. If you are a corporation, partnership or limited liability company, certain provisions of this disclosure document also apply to your owners and will be noted.

CBC is a Delaware corporation. Our principal place of business is 12700 Park Central Drive, Suite 1300, Dallas, Texas 75251. Our agents for service of process in various states are listed in Exhibit B.

CBC is a wholly-owned subsidiary of Il Fornaio (America) Corporation ("Il Fornaio"). Il Fornaio's principal address is 770 Tamalpais Drive, Suite 400, Corte Madera, California 94925. Il Fornaio has never offered franchises in any line of business, nor has it ever owned or operated Corner Bakery Cafes.

On June 10, 2011, as a result of the closing of the merger contemplated by the Agreement and Plan of Merger between Il Fornaio and CB Merger Corporation, a Delaware corporation, and its parent company, IFCB Holding Corporation, a Delaware corporation, CB Merger Corporation merged with and into Il Fornaio. Since its inception, IFCB Holding Corporation ("IFCB") has been controlled through affiliated companies by Roark Capital Group ("RCG"), LLC, a private equity firm based in Atlanta, Georgia. We remain a wholly-owned subsidiary of Il Fornaio.

We do business under the name Corner Bakery Cafe®. We have owned and operated Corner Bakery Cafes since February 2, 2006 when we acquired the assets of the Corner Bakery Cafe System from Brinker International, Inc. ("Brinker"). We have offered franchises since June 2006 and, as of December 31, 2010~~25~~, 2011, we operated 401~~103~~ Corner Bakery Cafes and there were 472~~6~~ franchised Corner Bakery Cafes. We have not offered franchises in any other line of business, and we do not engage in any business not described in this Item 1. Except as identified in this Item 1, we have no predecessors, parents or affiliates.

Corner Bakery Cafes

We are offering, under the terms of this disclosure document, the opportunity to become a franchisee to develop and operate Corner Bakery Cafes. Corner Bakery Cafes are fast-casual restaurants serving breakfast, lunch and dinner to guests in neighborhoods throughout the United States. Our innovative menu, featuring freshly prepared dishes, creates reasons for guests to return frequently to their local Corner Bakery Cafe easily recognized by our distinguished black-and-white awnings. Each Corner Bakery Cafe is a tight-knit community within the broader neighborhood it serves, where "regulars" frequently strike up friendships with each other and employees get to know the "regulars" by name. Breakfast guests look forward to starting their days over a steaming mug of hand roasted coffee and a freshly baked muffin or one of our signature Egg Scramblers. At lunch and dinner, menu favorites such as our famous Corner Combo, signature pastas and our hot Chicken Pomodoro Panini are complemented by innovative, seasonal features. A broad selection of handcrafted, signature salads such as our crisp Harvest Salad with Chicken and a wide offering of soups including the Roasted Tomato Basil Soup are also very popular choices. Equally tempting to Corner Bakery Cafe guests are our mouthwatering sweets including our famous Cinnamon Crème Cake and decadent brownies. Corner Bakery Cafe delivers a premier bakery cafe experience and a nationally recognized catering service to businesses and individuals right in the heart of their neighborhoods.

Corner Bakery Cafes operate according to a unique and distinctive system ("System"), whose distinguishing characteristics include distinctive exterior and interior design and layout; special recipes and menu items; and procedures and techniques for food and beverage preparation and service. We have described our mandatory and recommended standards, specifications and operating procedures in our confidential Corner Bakery Operations Manual ("Manual"). We will loan you one copy of the Manual for the term of your franchise. We have the right to change the Manual and the elements of the System.

You will sign an Area Development Agreement ("Development Agreement") (Exhibit C) which governs site selection, development and opening for franchised Corner Bakery Cafes. If you and the area you are interested in meet certain qualifications, pursuant to the Development Agreement, we may also grant you the right to open and operate multiple franchised Corner Bakery Cafes ("Franchised Cafes"). The Development Agreement will include a Development Schedule for the Franchised Cafes, which will identify deadlines for opening for each Franchised Cafe. You should not acquire any interest in a site for a Franchised Cafe ("Franchised Location") until you have been approved as a franchisee and we have accepted the site in writing. You must provide us advance notice of the date you expect construction at the Franchised Location to be completed and, after our receipt of that notice, you will sign a Franchise Agreement (Exhibit D) and pay the initial Franchise Fee (as described in Item 5) for the Franchised Cafe. When we authorize you to open the Franchised Cafe, we will sign the Franchise Agreement and provide you a fully-signed original of the Franchise Agreement. Certain of your owners will be required to personally guarantee your obligations to us under each Development Agreement and Franchise Agreement that you sign.

Your receipt of this disclosure document does not mean that you will be approved as a franchisee or that you may develop or open a Franchised Cafe. Before you may develop and open a Franchised Cafe, we must approve you as a franchisee and accept the site for your proposed Franchised Cafe in writing, you and CBC must sign the Franchise Agreement, and you and those persons designated by us must attend and successfully complete our initial training program.

Market and Competition

The market for restaurant bakery services is well-established. Restaurants similar to Corner Bakery Cafes primarily attract the age group from 18 to 60 years old. You will compete with a variety of restaurants, bakeries, caterers, grocery stores, take-out restaurants and convenience stores. The restaurant and bakery business is highly competitive based on price, service, restaurant location and food quality and is subject to fluctuations in consumer tastes, economic conditions, population and traffic patterns. In each market, we compete with locally owned restaurants and bakeries, as well as national and regional restaurant and bakery chains. Some of our competitors have longer operating histories than ours. The ability of each Corner Bakery Cafe to compete depends on its location, ingress and egress, signage, parking, service, employee attitudes, overhead, changing local market and economic conditions, and many other factors both within and outside your control.

Although we carefully evaluate persons who wish to become our franchisees, no screening process that we implement can conclusively determine whether you will succeed as a Corner Bakery Cafe operator. Similarly, completion of our initial training program does not provide any assurance of success. You must rely on your own assessment of your suitability (in terms of energy, business skill, desire, temperament, people skills, and financial capability, among other things) and your own advisors in deciding whether to become a Corner Bakery Cafe operator.

Industry-Specific Laws and Regulations

We are not aware of any laws or regulations applicable to a Corner Bakery Cafe that would not apply to restaurant businesses generally. You must comply with all applicable local, state and

federal laws and regulations, including health, sanitation, food handling, food preparation, waste disposal, smoking restrictions, discrimination, employment, sexual harassment and advertising laws. Some laws require point of sale disclosures, including statements concerning nutritional and dietary characteristics of the food served at your Franchised Cafe. There are other laws and regulations applicable to businesses generally (for example, the Americans with Disabilities Act) with which you must comply. You should consult with your attorney concerning these and other laws and ordinances that may affect the operations of the Franchised Cafe. You must also obtain all real estate permits and licenses and operational licenses.

Our Affiliates and Predecessor

Affiliated Franchise Programs

Through common control with or common management by either Roark Capital Group, Inc. ("RCG") or Roark Capital Management LLC ("RCM"), ~~as both~~ Atlanta-based management company ~~companies~~ affiliated with RCG ~~the private equity firm, Roark Capital Group~~, we are affiliated with the following franchise programs: ("Affiliated Programs"):

FOCUS Brands is the direct or indirect parent company to 5 franchisors, including Carvel Corporation ("Carvel"), Cinnabon, Inc. ("Cinnabon"), Schlotzsky's Franchise LLC ("Schlotzsky's"), Moe's Franchisor LLC ("MF"), and Auntie Anne's Inc. ("Auntie Anne's").

Carvel is a leading manufacturer ~~or retailer~~ of branded ice cream cakes in the United States and a producer of premium soft-serve ice cream. Carvel's principal place of business is 200 Glenridge Point Parkway, Suite 200, Atlanta, Georgia 30342. Carvel has been associated with the ice cream business since 1934. Carvel began franchising retail ice cream shoppes in 1947 and as of December 31, 2040 ~~2011~~, had 358 ~~354~~ domestic retail shoppes (including 39 shoppes co-branded in Schlotzsky's restaurants operated by our affiliate), 423 ~~38~~ international retail shoppes, 48 ~~38~~ foodservice locations operated by independent third parties and 45 ~~12~~ company-operated stadium locations that offer Carvel® ice cream and frozen desserts including cakes and ice cream novelties. Carvel has not offered franchises in any other line of business.

Cinnabon licenses independent third parties to operate domestic and international franchised Cinnabon® bakeries and Seattle's Best Coffee® franchises on military bases in the United States and in certain international countries, and to use the Cinnabon trademarks on products dissimilar to those offered in Cinnabon bakeries. Cinnabon is the leading specialty baked goods concept in the world. On November 4, 2004, FOCUS Brands purchased Cinnabon from AFC Enterprises, Inc. Cinnabon's principal place of business is 200 Glenridge Point Parkway, Suite 200, Atlanta, Georgia 30342. Cinnabon began franchising in 1990 and, as of December 31, 2040 ~~2011~~, franchisees operated 435 ~~492~~ Cinnabon retail outlets in the United States and 363 ~~433~~ Cinnabon retail outlets outside the United States and 5 Seattle's Best Coffee units in the United States and 135 units in other countries. As of December 31, 2040 ~~2011~~, Cinnabon operated 45 company-owned Cinnabon retail outlets in the United States. Cinnabon has not offered franchises in any other line of business.

Schlotzsky's franchises Schlotzsky's® quick-casual restaurants which feature sandwiches, pizza, soups, and salads. Schlotzsky's signature items are its "fresh-from-scratch" sandwich buns and pizza crusts that are baked on-site every day. On November 17, 2006, FOCUS Brands, through its wholly owned subsidiary, Schlotzsky's, purchased from Schlotzsky's, Ltd. and its affiliate, Schlotzsky's Real Estate Holdings, Ltd., both Texas limited partnerships, substantially all of the assets, including, among other items, all franchise agreements and trademarks, service marks and other intellectual property, that comprise the Schlotzsky's® restaurant franchise system and the Schlotzsky's brand. The Schlotzsky's franchise system's principal place of business is 301 Congress Avenue, Suite 1100, Austin, Texas-78701. Schlotzsky's restaurant franchises have been offered since 1976. As of December 31, 2040 ~~2011~~, there were 305 ~~297~~ franchised Schlotzsky's restaurants

and ~~27~~ company-owned restaurants operating in the United States, 40 company-owned restaurants and 1715 Schlotzsky's restaurants operating outside the United States. Schlotzsky's has not offered franchises in any other line of business.

On August 29, 2007, MF, a wholly owned subsidiary of FOCUS Brands, purchased from Mee's SWG Holdings, LLC, Mee's Holdings, LLC and Mee's Southwest Grill, LLC, substantially all of the assets, including, among other items, all franchise agreements and trademarks, service marks and other intellectual property, that comprised the Mee's Southwest Grill® fast casual restaurant concept. As a result, MF franchises the Mee's Southwest Grill® fast casual restaurant concept that offers fresh-mex and southwestern food. MF's principal business address is 200 Glenridge Point Parkway, Suite 200, Atlanta, Georgia 30342. MF's predecessor, Mee's Southwest Grill, LLC, began offering Mee's franchises in 2001. As of December 31, ~~2010~~2011, there were ~~414~~ franchised-Mee's restaurants and ~~4~~ company-owned Mee's restaurants in the United States and ~~2489~~ franchised Mee's restaurants operating in the United States, 2 operating outside the United States and 4 company-owned Mee's restaurants in the United States. MF has not offered franchises in any other line of business.

Auntie Anne's franchises Auntie Anne's® facilities that offer soft pretzels, lemonade, Dutch ~~leefrozen~~ drinks and related foods and beverages. On November 5, 2010, FOCUS Brands purchased all the outstanding shares of Auntie Anne's Food, Inc. ("AAFI"), the parent company of Auntie Anne's. Through the purchase of AAFI's shares, FOCUS Brands became the indirect parent company of Auntie Anne's. Auntie Anne's principal place of business is 48-50 W. Chestnut Street, Suite 200, Lancaster, Pennsylvania 17603. Auntie Anne's has offered franchises since January 1991. As of December 31, ~~2010~~2011, there were approximately ~~761~~789 franchised facilities and 13 company-owned stores in the United States and approximately ~~260~~277 franchised facilities operating outside the United States. Auntie Anne's has not offered franchises in any other line of business.

~~Arby's Restaurant Group, Inc. ("Arby's") is a franchisor of quick-serve restaurants operating under the Arby's® trade name and business system that feature slow-roasted, freshly sliced roasted beef sandwiches. Arby's principal place of business is 1155 Perimeter Center West, Suite 1200, Atlanta, Georgia 30338. In July 2011, Arby's became an affiliated franchise program through the acquisition of all of Arby's outstanding stock by a company controlled by RCG through RCG's affiliated companies. Arby's has been franchising since 1965 and, as of January 2, 2011, there were approximately 3,523 Arby's restaurants operating in the United States (2,370 franchised and 1,141 company-owned), and 126 franchised Arby's restaurants operating internationally. Predecessors and former affiliates of Arby's have, in the past, offered franchises for other restaurant concepts including T. J. Cinnamons® and Pasta Connection®. As of January 2, 2011, there were approximately 00 T. J. Cinnamons locations in the United States. T. J. Cinnamons stores serve gourmet baked goods and, currently, Arby's offers fractional franchises for T. J. Cinnamons stores on a limited basis. A predecessor of Arby's offered franchises for Pasta Connection restaurants and the last Pasta Connection franchise closed in 2008.~~

~~Batteries Plus, L.L.C. ("Batteries Plus") offers individual and multiple unit franchises for the operation of Batteries Plus® stores selling batteries and battery-related items for the retail consumer and commercial accounts. Batteries Plus' principal place of business is 025 Walnut Ridge Drive, Suite 100, Martland, Wisconsin 53029. Batteries Plus became an affiliated franchise program through an acquisition in November 2007. Batteries Plus has been franchising since August 1996 and as of December 31, 2010, there were 415 franchised stores and 28 company-owned stores. Batteries Plus has not offered franchises in any other line of business.~~

~~FASTSIGNS International, Inc. ("FASTSIGNS") offers franchises for the operation of is a franchisor of businesses specializing in the selling, marketing, production and installation of visual communications including signs, (both non-electrical and electrical), graphics, banners, flags, vehicle graphics, vehicle wraps, ADA signage, compliance signs, dimensional letters, dimensional signage,~~

ready-to-apply lettering, exhibits and displays, and decals and labels, exhibits, trade show and other displays, digital imaging and printing, electronic or digital signago, (including small format, large format and grand format), advertising and promotional products, (including wearables), electronic or digital signage, 2D barcodes, websites (both regular and mobile-optimized), logo/artwork design and illustration, product wraps and other related graphics, marketing services and other complementary products and services, with its principal place of business at 2542 Highlander Way, Carrollton, Texas 75006. FASTSIGNS does business under the name American Fastsigns®, FASTSIGNS International, Inc. and FASTSIGNS®. FASTSIGNS has been franchising since 1986 and as of December 31, 2010, there were 452 2011 had 451 centers operating in the United States and 7972 centers operating outside the United States internationally. FASTSIGNS has not offered franchises in any other line of business.

McAllister's Corporation ("McAllister's") is a franchisor that offers full-size and non-traditional quick casual restaurant franchises offering counter-service, on-premises and take-out services featuring a complete or limited line of deli foods, including hot and cold deli sandwiches, baked potatoes, salads, soups, desserts, iced tea and other food and beverage products under the names "MCALISTER'S DELI®" or "MCALISTER'S SELECT®." McAllister's principal place of business is Suite 51, 731 South Pear Orchard Road, Ridgeland, Mississippi 39157. McAllister's has been franchising since 1999 and as of December 31, 2010, there were 268 2011 had 271 domestic franchised restaurants and 3536 company-owned restaurants in the United States. McAllister's has not offered franchises in any other line of business.

Batteries Plus, L.L.C. ("Batteries Plus") is a franchisor that offers individual and multiple unit franchises for the operation of Batteries Plus® stores selling batteries and battery-related items for the retail consumer and commercial accounts. Batteries Plus' principal place of business is 925 Walnut Ridge Drive, Suite 100, Hartland, Wisconsin 53029. Batteries Plus became an affiliated franchise program through an acquisition in November 2007. Batteries Plus has been franchising since August 1996 and as of December 31, 2011 had 467 franchised stores and 33 company-owned stores. Batteries Plus has not offered franchises in any other line of business.

Primrose School Franchising Company ("Primrose") is a franchisor that offers franchises for the establishment, development and operation of Primrose School educational child care facilities serving families with children from 6 weeks to 12 years old. Primrose's principal place of business is 3660 Cedarcrest Road, Acworth, Georgia 30101. Primrose became an affiliated franchise program through an acquisition in June 2008. Primrose has been franchising since 1988 and as of December 31, 2011 had 233 franchised facilities and 1 company-owned facility. Primrose has not offered franchises in any other line of business.

Pet Valu Canada Inc. ("Pet Valu") is a franchisor that offers franchises for specialty retail stores operating under the trademark "Pet Valu" that sell food and supplies for dogs, cats, birds, fish, reptiles and small animals. Pet Valu's principal place of business is 7300 Warden Avenue, Suite 106, Markham, Ontario L3R 9Z6. Pet Valu became an affiliated franchise program through an acquisition in August 2009. Pet Valu has been franchising since 1987. Pet Valu also operates 2 other small chains of specialty retail pet supply stores in Ontario, Canada and one other chain of specialty retail pet supply stores in British Columbia, Canada. One Ontario chain operates under the trademark "Paulmac's Pet Foods" and, as of December 31, 2010 2011, there were 4413 franchised and 54 company-owned stores. The other Ontario chain operates under the trademarks "Berry's", "Your Petschoice" and "Berry's...Your Petschoice" and, as of December 31, 2010 2011, there were 61 company-owned stores. The British Columbia chain, acquired by Pet Valu in April 2010, operates under the trademark "Bosley's Pet Food Plus" and, as of December 31, 2010 2011, there were 714 franchised and 4018 company-owned stores. As of December 31, 2010 2011, there were 477209 franchised Pet Valu stores operating in Ontario and, Alberta, Manitoba and Nova Scotia, Canada, 404107 company-owned Pet Valu stores in Ontario, Manitoba, Alberta, New Brunswick, Nova Scotia and Alberta Saskatchewan, Canada, 0266 company-owned Pet Valu stores in the United States

(Maryland, Pennsylvania, Virginia and New Jersey) and 1 franchised Pet Valu store in the United States. (Pennsylvania). Pet Valu has not offered franchises in any other line of business. Pet Valu currently only offers franchises for the operation of Pet Valu and Bosley's stores in Canada.

~~Primrose School Franchising Company ("Primroso") offers franchises for the establishment, development and operation of Primrose School educational child care facilities serving families with children from 6 weeks to 12 years old. Primrose's principal place of business is 3660 Codarcroft Road, Acworth, Georgia 30101. Primrose became an affiliated franchise program through an acquisition in June 2008. Primrose has been franchising since 1988 and as of December 31, 2010, there were 223 franchised facilities and one company-owned facility. Primroso has not offered franchises in any other line of business.~~

Wingstop Restaurants, Inc. ("WINGSTOP") is a franchisor of restaurants operating under the WINGSTOP® trade name and business system that serve buffalo-style chicken wings and complementary side dishes and beverages. WINGSTOP's principal place of business is 1101 E. Arapaho Road, Suite 150, Richardson, Texas 75081. WINGSTOP became an affiliated franchise program through an acquisition in April 2010. WINGSTOP has been franchising since May 1997 and, as of December 31, 2010, there were 443 franchised and 24 company-owned 2011, had 488 restaurants operating in the United States (464 franchised and 24 company-owned) and 511 restaurants operating internationally. WINGSTOP has not offered franchises in any other line of business.

Arby's Restaurant Group, Inc. ("Arby's") is a franchisor of quick-serve restaurants operating under the Arby's® trade name and business system that feature slow-roasted, freshly sliced roasted beef sandwiches. Arby's principal place of business is 1155 Perimeter Center West, Suite 1200, Atlanta, Georgia 30338. In July 2011, Arby's became an affiliated franchise program through the acquisition of all of Arby's outstanding stock by a company controlled by RCG through RCG's affiliated companies. Arby's has been franchising since 1965 and, as of December 31, 2011, there were approximately 3,437 Arby's restaurants operating in the United States (2,308 franchised and 1,129 company-owned), and 127 franchised Arby's restaurants operating internationally. Predecessors and former affiliates of Arby's have, in the past, offered franchises for other restaurant concepts including T. J. Cinnamons® and Pasta Connection®. As of December 31, 2011, there were approximately 72 T. J. Cinnamons locations in the United States. T. J. Cinnamons stores serve gourmet baked goods and, currently, Arby's offers fractional franchises for T.J. Cinnamons stores on a limited basis. A predecessor of Arby's offered franchises for Pasta Connection restaurants and the last Pasta Connection franchise closed in 2008.

None of the affiliated franchisors are obligated to provide products or services to you; however, you may purchase products or services from these franchisors if you choose to do so.

Our Predecessor

Brinker's principal address is 6820 LBJ Freeway, Dallas, Texas 75240. Brinker owned and operated Corner Bakery Cafes from 1995 to 2006, and in November 1999, Brinker licensed a third party to operate 3 Corner Bakery Cafes in Chicago O'Hare International Airport.

As of February 2, 2006, Brinker operated and franchised three other restaurant concepts including: (1) "Chili's," "Chili's Southwest Grill & Bar," "Chili's Too," "Chili's Bar & Bites," "Chili's Grill & Bar," "Chili's Margarita Bar" and "Chili's Hamburger Grill & Bar" (collectively, "Chili's Restaurants"); (2) "Romano's Macaroni Grill" and "Macaroni Grill" (collectively, "Macaroni Grills"); and (3) "On the Border Mexican Grill & Cantina" and "On the Border" (collectively, "On the Border Restaurants"). Brinker has not offered franchises in any other line of business.

Chili's Restaurants are full-service restaurants featuring Southwestern and Mexican-style cuisine. Brinker has offered franchises for Chili's Restaurants since 1984. As of June 29, 2005, Brinker had 162 franchised Chili's Restaurants. Macaroni Grills are full-service restaurants featuring Italian cuisine. Brinker has offered franchises for Macaroni Grills since December 2002. As of June 29, 2005, Brinker had 6 franchised Macaroni Grills. On the Border Restaurants are full-service restaurants featuring Tex-Mex cuisine. Brinker has offered franchises for On the Border Restaurants since 1994. As of June 29, 2005, Brinker had 18 franchised On the Border Restaurants.

ITEM 2

BUSINESS EXPERIENCE

Director and, Chief Executive Officer and President: Michael J. Hislop

Mr. Hislop has served as our Director and our Chief Executive Officer since February 2006, and as our President since December 2011. From February 2006 to August 2006, he also served as President of CBC. Mr. Hislop also has served as Director and Chief Executive Officer of IFCB since June 2011, Chief Executive Officer of Il Fornaio in Corte Madera, California since September 2004 and as Chairman of Il Fornaio's Board of Directors since July 2005.

Director: James L. Collins

Mr. Collins has served as our Director since June 2011. He also has served as a Director of Il Fornaio since June 2011. Since October 2000, he has served as Vice President of RCM. From March 2008 to June 2008, he served as a Principal for Stone Tower Equity Partners. Mr. Hislop also has served as Director and Chief Executive Officer of our affiliate, Bakery Holdings LLC in New York, New York. From June 2006 to March 2008, ("Bakery Holdings"), since December 2011. Mr. Collins served as a Director for Parish Capital Advisors, LLP in Chapel Hill, North Carolina. He served as Il Fornaio's President and Chief Executive Officer from July 1998 to September 2004 and its President and Chief Operating Officer from July 1995 to July 1998. Mr. Hislop serves in his present capacities in Atlanta, Georgia and Corte Madera, California.

Director: Stephen D. Aronson

Mr. Aronson has served as a member of our Board of Directors since June 2011. He also has served as a Director of IFCB since June 2011, of Il Fornaio since June 2011 and of Bakery Holdings since December 2011. He currently serves as Managing Director and General Counsel of RCG and RCM and their affiliates. He has been a Managing Director for these companies since November 2008 and the General Counsel of these companies since November 2007. From February 2005 to November 2007, Mr. Aronson served as Vice President of RCG and RCM. He currently serves as a director of a number of the franchisors described in the "Affiliated Franchise Programs" in item 1. He serves in his present capacities in Atlanta, Georgia.

President and Chief Operating Officer: James (Jim) D. Vinz

Mr. Vinz has served as Chief Operating Officer of CBC since February 2006 and, in addition, has served as President of CBC since August 2006.

Director: Steve Romaniello

Mr. Romaniello has served as a member of our Board of Directors since March 2012. He

also has served as a Director of IFCB since March 2012, of Il Fornaio since March 2012 and of Bakery Holdings since December 2011. Since November 2008, Mr. Romaniello has been a managing director of RCM in Atlanta, Georgia. From April 2003 through December 2008, Mr. Romaniello was Chief Executive Officer and President of FOCUS Brands Inc. in Atlanta, Georgia. Mr. Romaniello served as Chief Executive Officer of Moe's Franchisor LLC from April 2007 to March 2009 and as its President from April 2007 to April 2008. Mr. Romaniello was Chief Executive Officer of Schlotzsky's Franchise LLC from November 2006 to March 2009 and as its President from November 2006 to December 2007. Mr. Romaniello served as Chief Executive Officer of Cinnabon Inc. from November 2004 to March 2009 and as its President from November 2004 to October 2006. Mr. Romaniello served as Chief Executive Officer of Carvel Corporation in Atlanta, Georgia from April 2003 to March 2009, as its President from April 2003 to October 2006 and as its President of Franchise and Foodservice from January 2002 to April 2003. Mr. Romaniello serves in his present capacities in Atlanta, Georgia.

Senior Vice President and Chief Financial Officer: Richard A. Peabody

Mr. Peabody has served as our Senior Vice President and Chief Financial Officer since July 2008. He also has served as Senior Vice President and Chief Financial Officer of IFCB since June 2011, of Il Fornaio since April 2010 and of Bakery Holdings since December 2011. From November 2005 to July 2008, he was Executive Vice President and Chief Financial Officer for Taco Bueno Restaurants, LP in Farmer's Branch, Texas.

Senior Vice President of Development and General Counsel and Secretary: Blake A. Bernet

Mr. Bernet has served as Senior Vice President of Development of CBC since April 2008 and General Counsel of CBC since February 2006. He also has served as Secretary of CBC since April 2010. Mr. Bernet has served as Secretary of IFCB since June 2011, of Il Fornaio since April 2010 and of Bakery Holdings since December 2011. He served as Vice President of Development of CBC from February 2006 to March 2008.

Senior Vice President of Marketing: Diana Hovey

Ms. Hovey has served as Senior Vice President of Marketing of CBC since October 2006. From December 2003 to October 2006, she was a principal of Hovey & Associates in Dallas, Texas.

Senior Vice President of Human Resources: Denise K. Clemens

Ms. Clemens has served as Senior Vice President of Human Resources of CBC since April 2008. From February 2006 to April 2008, she served as Vice President of Human Resources of CBC.

Senior Vice President of Food and Beverage: Riccardo (Ric) Scicchitano

Mr. Scicchitano has served as Senior Vice President of Food and Beverage since April 2008. From February 2006 to April 2008, he served as Vice President of Food and Beverage of CBC.

Vice President of Operations: Joe Webb

Mr. Webb has served as Vice President of Operations of CBC since June 2008. From February 2006 to April 2007 he served as the Regional Director for the Chicago, Denver, Philadelphia and Washington, DC markets for CBC and served as Regional Director for Southern California for CBC from April 2007 to June of 2008.

Vice President of Training and Operations Services: Paul Hicks

Mr. Hicks has served as Vice President of Training and Operations Services of CBC since January 2010. From June 2008 to January 2010, Mr. Hicks served as Vice President of Operations Services. From October 2007 to June 2008, Mr. Hicks served as Senior Director of Operations Services for CBC. From September 2006 to October 2007 he served as Director of Catering Operations for CBC. From February 2006 to September 2006 Mr. Hicks served as an Area Director for CBC.

Vice President of Real Estate and Franchise Development: Robert W. Hartmann, Jr.

Mr. Hartman has served as our Vice President of Real Estate and Franchise Development since ~~October 2006~~. He January 2009, Mr. Hartman served as our Vice President of Franchise Development Real Estate from January 2009 October 2006 to December 2010. From November 2007 to December 2009, he was our Director of Franchise Business. From July 2005 to September 2006, he served as Senior Director of Real Estate and Property Management for Whataburger, Inc. in Corpus Christi, Texas.

Vice President of Franchise Business Development: John A. LaBarge

Mr. LaBarge has served as our Vice President of Franchise Business Development since January 2011. From December 2009 to December 2011, he was our Vice President of Franchise Business. From November 2007 to December 2009, he was our Director of Franchise Business. He was an Area Director for CBC in Chicago, Illinois from February 2006 to November 2007.

Vice President of Franchise Sales: Jonathan E. Benjamin

Mr. Benjamin has served as our Vice President of Franchise Sales since January 2012. From May 2011 to November 2011, he served as President and General Counsel of Symphony Environmental USA in Jacksonville, Florida. From July 1998 to March 2011, Mr. Benjamin served as Vice President of Franchise Development for Wyndham Worldwide Corporation and US Franchise Systems, Inc. in Atlanta, Georgia.

Senior Franchise Manager: Diana Lawler

Ms. Lawler has served as our Senior Franchise Manager since August 2010. From June 2002 to August 2010, she was our Catering Systems Manager.

Senior Director of Development and Facilities: Mike Snyder

Mr. Snyder has served as our Senior Director of Development and Facilities since February 2006.

Director of Franchise Development: Craig Sherwood

~~Mr. Sherwood has served as our Director of Franchise Development since January 2011. From August 2005 to July 2010, he was Senior Development Manager for Yum! Brands, Inc. in Dallas, Texas.~~

Director of Franchise Operations: Jacqueline Sullivan

Ms. Sullivan has served as our Director of Franchise Operations since January 2011. From April 2007 to December 2010 she served as our Regional Director and from July 1997 to April 2007, she served as our Area Director.

Director of Real Estate: Keith Moore

Mr. Moore has served as our Director of Real Estate since September 2010. From June 2001 to September 2010 he was Director of Real Estate for Foremark, Ltd. in Dallas, Texas.

Director of Real Estate: Richard (Rick) Carson

Mr. Carson has served as our Director of Real estate since January 2012. From September 2010 to January 2012, he operated a consulting business under RBC Consulting in Franklin, Tennessee. From July 2005 to September 2010, he was the Director of Real Estate and Development for J. Alexander's Restaurants in Nashville, Tennessee.

ITEM 3

LITIGATION

~~On November 19, 2001, Cinnabon and the Minnesota Commissioner of Commerce entered into a Consent Coase and Dosist Order (the "Consont Ordor") (File No. FR2106786/SGC). The Consent Order arose from allegations that Cinnabon sold unregistorod franchises to Minnesota residents, including to a former offitor of Cinnabon. Cinnabon voluntarily ontored into the Consont Order, which required that Cinnabon (i) stop offering and soiling any franchisos in Minnesota until the franchises were registered under Minnesota law or qualified for an oxemption from registration under Minnesota law, and (ii) pay Minnosota a civil penalty of \$30,000. Cinnabon paid the civil penalty in Novombor 2001 and was rogistorod to sell franchises in April 2002.~~

Actions Unrelated to Corner Bakery Cafea

1. Best Franchising, Inc. and Hawthorn Suites Franchising, Inc. ("Best") v. Terry P. Wynia, Jean K. Wynia, et al. ("Wynia") v. Best Franchising, Inc., Hawthorn Suites Franchising, Inc., U.S. Franchise Systems, Inc., Microtel Inns and Suites Franchising, Inc., Mike Leven, Steve Romaniello and Mike Muir: Civil Action File No. CS-02-0175-EFS, U.S. District Court, Eastern District of Washington, transferred on May 1, 2002 from U.S. District Court, Northern District of Georgia, Atlanta Division, Civil Action File No. 01-CV-0805, removed on March 29, 2001 from Superior Court of DeKalb County, Georgia, Civil Action File No. 01-CV-249-1, originally filed February 16, 2001. Best made claims against Wynia, most of which are former franchisees of Best, alleging monies due under the franchise agreements between them, which claims totaled in excess of \$10 million dollars. Wynia asserted counterclaims alleging that Best breached various terms of their franchise agreements, committed fraud with respect to their franchise agreements, violated the Franchise Investment Protection Act and Consumer Protection Act of the State of Washington, and breached a letter agreement with Wynia, which counterclaims totaled in excess of \$30 million dollars. In January 2002, Wynia filed a complaint against Best, U.S. Franchise Systems, Inc., Mike Leven, Steve Romaniello and Mike Muir (CS-011-FVS; U.S. District Court, Eastern District of Washington), seeking rescission of certain franchise agreements between the parties, restitution,

damages and penalties for violations of the Franchise Investment Protection Act and Consumer Protection Act in the State of Washington and for certain material breaches by certain individuals of other agreements. As a result of Court Orders in February and March 2004, several of Wynia's claims were dismissed including the claim of violations of the Consumer Protection Act. As a result of those rulings, Wynia's claim was limited to a claim that Best breached the parties' written license agreements by not delivering a hotel system as defined in the written franchise agreements and for selected violations of the Franchise Investment Act. In August 2004, Wynia entered into a settlement and release agreement with Steve Romaniello, who serves on our Board of Directors, and other individuals for the purpose of voluntarily dismissing with prejudice all claims Wynia had against these individuals. No monies were paid for these dismissals and none of the parties admitted any liability or fault. This case was eventually fully settled and dismissed when Wynia and the corporate defendants reached an agreement by which the parties dismissed all claims between them and the corporate defendants paid an agreed upon amount of money. None of the parties admitted any liability or fault to one another.

2. Gregory Lee Spatz v. Microtel Inns and Suites Franchising, Inc., U.S. Franchise Systems, Inc. and Jonathan Benjamin, United States District Court for the Southern District of Florida (Federal Action No. 11-cv-60509). In March 2011, the plaintiff, Gregory Spatz, filed suit against the defendants, Microtel Inns and Suites Franchising, Inc. ("Microtel"), U.S. Franchise Systems, Inc., and Jonathan Benjamin, alleging fraud, negligent misrepresentation, violation of the Florida Deceptive and Unfair Trade Practices Act and violation of the Florida Sale of Business Opportunity Act. Mr. Spatz alleged that the defendants misrepresented his hotel's prospects for success and, as a result, he lost his personal investment of over \$1 million and was exposed to losses of approximately \$3.8 million in loan guarantees. The defendants answered the Complaint and raised multiple affirmative defenses, including Mr. Spatz's execution of a release in favor of Microtel and Benjamin of any and all claims and causes of action arising prior to November 12, 2009, relating to the offer, sale, and/or negotiation of Mr. Spatz's License Agreement with Microtel. After the close of discovery, Microtel, U.S. Franchise Systems, Inc., and Jonathan Benjamin moved for summary judgment in their favor on all claims. On February 6, 2012, the court granted summary judgment in favor of Microtel, U.S. Franchise Systems, Inc., and Jonathan Benjamin. Microtel, U.S. Franchise Systems, Inc., and Jonathan Benjamin have applied to the court for an award of their attorneys' fees and court costs against Mr. Spatz. Mr. Spatz has filed a Notice of Appeal.

Other than this action the two matters identified above, no litigation is required to be disclosed in this Item.

ITEM 4

BANKRUPTCY

4. 1. In re Romacorp, Inc., et al, U.S. Bankruptcy Court for the Northern District of Texas, Dallas Division, Case No. 05-86818-BJH-11. Richard Peabody, our Senior Vice President and Chief Financial Officer, was Vice President and Chief Financial Officer of Romacorp, Inc. (Romacorp) until he left this position in early November 2005. On December 13, 2005, Romacorp filed for Chapter 11 protection under the U.S. Bankruptcy Code. Romacorp operates and franchises Tony Roma's restaurants. Romacorp maintains its principal place of business at 1700 Alma, Suite 400, Plano, Texas 75075. The Romacorp bankruptcy was discharged on March 27, 2006.

2. In re Paul W. and Amy C. Hicks, US Bankruptcy Court for the Eastern District of Texas, Sherman Division, Case No. 09-40210-R. On January 26, 2009, our Vice President of Operations Services, Paul Hicks, filed for Chapter 13 protection under the U.S. Bankruptcy Code. On July 16, 2009, the bankruptcy court confirmed Mr. Hicks' plan of reorganization.

3. *In re Wood Structures, Inc.*, U.S. Bankruptcy Court for the District of Maine, Case No. 09-20245 and *In re Wood Assonet Corporation*, U.S. District Court for the District of Maine, Case No. 09-20246. As a result of the continued precipitous downturn in the residential housing market in New England and the deepening economic crisis within the U.S. economy, on March 3, 2008, our affiliate Wood Structures, Inc. and its subsidiary, Wood Assonet Corporation (collectively, "Wood Structures"), each filed separate petitions for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. On April 7, 2009, pursuant to an order of the Bankruptcy Court, the Chapter 11 proceeding was converted to a Chapter 7 case. Wood Structures manufactured trusses and distributed wood products for the residential housing market in New England. Wood Structures neither engaged in business with us or our franchise system nor did Wood Structures conduct any part of their business activities in the field of franchising.

24. *In re Ace Mortgage Funding, LLC*, U.S. Bankruptcy Court for the District of Delaware, Case No. 08-12645-CSS, *In re Ace Holding Company, LLC*, U.S. Bankruptcy Court for the District of Delaware, Case No. 08-12642-CSS, *In re Ace Imaging, LLC*, U.S. Bankruptcy Court for the District of Delaware, Case No. 08-12644-CSS, *In re Archer Land Title, LLC*, U.S. Bankruptcy Court for the District of Delaware, Case No. 08-12643-CSS. Due to the financial crisis in the United States mortgage markets in 2008, numerous mortgage companies filed for bankruptcy. On November 5, 2008, our affiliate, Ace Holding Company, LLC and its subsidiaries, Ace Mortgage Funding, LLC, Ace Imaging, LLC and Archer Land Title, LLC (collectively, the "Ace Companies"), each filed separate petitions for liquidation under Chapter 7 of the U.S. Bankruptcy Code. The Ace Companies neither engaged in business with us or our franchise system nor did the Ace Companies conduct any part of their business activities in the field of franchising.

~~3. *In re Romacorp, Inc., et al.*, U.S. Bankruptcy Court for the Northern District of Texas, Dallas Division, Case No. 05-86818-BJH-11. Richard Poobody, our Senior Vice President and Chief Financial Officer, was Vice President and Chief Financial Officer of Romacorp, Inc. (Romacorp) until he left this position in early November 2005. On December 13, 2005, Romacorp filed for Chapter 11 protection under the U.S. Bankruptcy Code. Romacorp operates and franchises Tony Roma's restaurants. Romacorp maintains its principal place of business at 1700 Alma, Suite 400, Plano, Texas 75075. The Romacorp bankruptcy was discharged on March 27, 2006.~~

~~4. *In re Paul W. and Amy C. Hicks*, U.S. Bankruptcy Court for the Eastern District of Texas, Shormon Division, Case No. 09-40210-R. On January 26, 2000, our Vice President of Operations Services, Paul Hicks, filed for Chapter 13 protection under the U.S. Bankruptcy Code. On July 16, 2000, the bankruptcy court confirmed Mr. Hicks' plan of reorganization.~~

Other than the four matters identified above, no bankruptcy is required to be disclosed in this Item.

ITEM 5

INITIAL FEES

Development Fee. When you sign the Development Agreement, you must pay to us a Development Fee equal to \$10,000 for each Franchised Cafe that you agree to develop. The Development Fee is fully earned by us when paid by you, and it is not refundable in consideration of administrative and other expenses incurred by us and for the development opportunities lost or deferred as a result of the rights granted to you in the Development Agreement. In addition, the Development Fee is not credited against any other fees to be paid to us.

Initial Franchise Fee. ~~The Initial~~When you sign the Franchise Fee is \$25,000. Agreement, you must pay to us an Initial Franchise Fee in the amount of \$25,000. If the Franchised Cafe is the

first Franchised Cafe that you have developed under a Development Agreement with us and you signed the Franchise Agreement when you signed the Development Agreement, then you will not be required to pay the Initial Franchise Fee to us for your first Franchised Cafe at least 30 until 40 days before you open the Franchised Cafe. For any additional Franchised Cafes that you develop, you will pay the Initial Franchise Fee when you sign the Franchise Agreement. The Initial Franchise Fee is fully earned by us when paid by you, and It is not refundable for any reason.

Space Plan and Signage Plan. We will provide you with a space plan layout ("Space Plan") and exterior signage plan ("Signage Plan") for each Franchised Cafe that you develop. If the Franchised Cafe is one of the first three Franchised Cafes that you or your affiliates have developed, then we will prepare the Space Plan and Signage Plan at no cost to you. If the Franchised Cafe is developed after your third Franchised Cafe, then you must pay our then-current fee, which currently is \$8,000, for preparation of the Space Plan and Signage Plan.

Generally, our ~~Development and Initial Franchise~~these fees are uniformly Imposed on our franchisees, however, In certain unique circumstances, we may reduce or waive a fee for a particular franchisee.

ITEM 6

OTHER FEES

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Royalty Fee	5% of Gross Sales ⁽²⁾	Weekly following the end of each Reporting Period by electronic funds transfer ⁽³⁾	A Reporting Period Is defined as a one-week period commencing on Monday and ending on Sunday, or another period that we designate periodically.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Advertising	WAO currently totals 2% of Gross Sales		You will have a weekly advertising obligation ("WAO"), which will be allocated among a Brand Development Fee, a National Marketing Fund contribution (once established), a Regional Marketing Fund contribution (if applicable) and local advertising and promotion ("Field Marketing") expenditures. Currently, the WAO is 2.0% of Gross Sales and is divided between the Brand Development Fee (.5%) and your Field Marketing expenditures (1.5%). ⁽⁴⁾
Brand Development Fee	Currently, 0.5% of Gross Sales	Same as royalty fee	
National Marketing Fund ⁽⁵⁾	Amount determined by CBC if and when the National Marketing Fund is established	See Item 11	
Regional Marketing Funds ⁽⁶⁾	Amount determined by CBC if and when each Regional Marketing Fund is established	See Item 11	
Field Marketing	Difference between your WAO and the amount you pay for the Brand Development Fee and to the National Marketing Fund and any Regional Marketing Fund. Currently 1.5% of Gross Sales	Not paid to CBC	
Additional Training	Tuition charge as established by us periodically	Within 30 days after receipt of invoice	We have the right to require certain of your employees as designated by us to attend training programs in addition to the initial training program provided by us. In addition to the tuition charge, you also will be required to pay all travel, living and other expenses incurred by your employees while attending training.
Late Charges and Interest ⁽⁷⁾	Interest on the amount owed from the date due until paid. We also have the right to charge a \$500 late charge for each delinquent payment.	When any payment or report is not actually received by us on or before the date on which that payment is due	The interest rate is 18% per annum or the maximum rate permitted by law, whichever is less.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Audit and Inspection Costs	Amount understated by you, plus interest	Upon demand	The interest rate is the same as the interest rate for late payments. If an inspection or audit discloses an understatement in any report of 2% or more of Gross Sales for the audit period, you also must reimburse us for all costs and expenses connected with the inspection or audit.
Collection Costs and Expenses	Our costs and expenses	Upon demand, if required	These costs and expenses include, but are not limited to, costs and commissions due a collection agency, reasonable attorneys' fees, costs incurred in creating or replicating reports demonstrating Gross Sales of the Franchised Cafe, court costs, expert witness fees, discovery costs and reasonable attorneys' fees and costs on appeal, together with interest charges on all of the above.
Costs and Attorneys' Fees	Our costs and expenses	As incurred	if we prevail in litigation regarding enforcement of the terms of the Development or Franchise Agreement or if we utilize legal counsel as a result of your failure to comply with these agreements, you must pay our attorneys' fees and costs.
Damages for Employee Raiding	3 times the annual salary of the person(s) involved	Upon demand	Payable if you employ or seek to employ any person who is employed by us or any other Corner Bakery Cafe franchisee or developer, or otherwise induce that person to leave his/her employment.
Indemnification	The losses and expenses incurred by CBC and our affiliates	As incurred	You must indemnify and hold CBC and our affiliates harmless in all actions arising out of or resulting from the development or operation of your Franchised Cafe, excluding the gross negligence or willful misconduct of CBC.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Management Personnel Fees	Salaries (Including the cost of fringe benefits, which the parties agree equal 20% of salaries), meals, lodging, other living expenses and transportation for the period of time that our management personnel remain at the Franchised Cafe. After 60 days, you must pay double the salaries for our management personnel.	As Incurred	If you, at any time, cease to employ three managers who have completed our initial training program, we have the right to send our personnel to the Franchised Cafe to manage the Franchised Cafe until you hire replacement managers and they have completed the initial training program.
New Product and Supplier Testing	Our reasonable costs of reviewing the application and inspecting the proposed supplier's facilities, equipment and food products and all product testing costs paid by us to third parties	In advance of any review of the application	See Item 8 for a description of the supplier approval process.
Non-Cash Payment Systems	All costs incurred by us associated with non-cash payment systems as they relate to the Franchised Cafe	As incurred	You must accept debit cards, credit cards, stored value gift cards or other non-cash payment systems that we specify.
Opening Team of Trainers	Our then-current hourly rate for trainers. As of the date of this disclosure document, that rate is \$50/hour.	As incurred	If you request an opening team of trainers for the fourth or any additional Franchised Cafe that you develop, you will be required to pay these charges.
Quality Control Programs	If Implemented, your proportionate share, as determined by us in our sole discretion, of the costs of the program	As incurred	If implemented, you must participate in any quality control programs that we, in our sole discretion, establish, including a "mystery diner" program or any other consumer experience evaluation programs.
Post-Opening Assistance	Our per diem fees and charges we may establish. As of the date of this disclosure document, our per diem fees are \$750/day.	As incurred	At your request, we may provide special assistance at the Franchised Cafe for which you will be required to pay these charges.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Reimbursement of insurance Costs	Our out-of-pocket costs of obtaining coverage on your behalf	immediately upon receipt of invoice	if you fail to obtain or maintain the required minimum insurance, we may obtain the insurance and charge its cost along with our out-of-pocket expenses to you.
Reimbursement of Required Maintenance Expenses	Cost of those expenses and cost of coordinating those repairs	Upon demand	if, at any time, the general state of repair, appearance or cleanliness of your Franchised Cafe, or its furnishings, fixtures, equipment or signage does not meet our standards, and you fail to correct that deficiency as we require, we have the right, but not the obligation, to enter the Franchised Cafe and perform that maintenance at your expense.
Relocation	All reasonable charges actually incurred by us in consideration of your relocation request	Upon demand, if required	You may not relocate the Franchised Cafe without our prior written consent, which we may withhold in our sole discretion.
Space-Plan Sanitation and Signage Plan Fee <u>Food Safety Audits</u>	Fee as periodically specified in the Manual. <u>Currently, the cost for mandatory Sanitation and Food Safety audits is \$262 per audit paid to our program vendor Ecosure.</u>	As incurred	Payable beginning with the fourth Corner Bakery Cafe that you develop. See item 11 for additional information regarding the Space Plan and Signage Plan. <u>if a failing score is received on an audit, a re-inspection is required at an additional fee.</u>
Successor Franchise Fee	50% of our then-current standard initial franchise fee	At the time you sign the successor franchise agreement	
Taxes	You must reimburse us for any sales tax, gross receipt tax or similar tax (other than income tax) imposed on us for any payments to us required under the Franchise Agreement, unless the tax is credited against income tax otherwise payable by us.	immediately upon demand	

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Transfer Fee	Development Agreement: \$7,500 for each Franchised Cafe that remains to be developed under the Development Schedule, plus our costs associated with evaluating the transfer Franchise Agreement: \$3,500, plus our costs associated with evaluating the transfer	Before consummation of transfer	<u>You also must pay our costs associated with evaluating the transfer including our outside counsel costs.</u> Transfers, generally, are subject to our prior written consent. We do not charge a transfer fee for transfers of a minority percentage of your ownership interests; transfers following the death or disability of you, your Owners <u>Principals</u> or your Operating Partner; or, if you are a partnership, transfers to a corporation (or limited liability company) formed for convenience of ownership.
Web Site Fee	Currently, we do not charge a fee for developing, reviewing, approving and/or hosting your web site, but we reserve the right to do so.	As incurred	You may not promote, offer or sell any products or services, or use any of the Marks, through the internet or other future technological avenues without our prior written consent, which we may withhold for any or no reason.

NOTES

- (1) Unless otherwise noted, all fees are imposed by and payable to us and are not refundable. Generally, all fees are uniformly imposed on our franchisees, however, in certain unique circumstances, we may reduce or waive a fee for a particular franchisee.
- (2) "Gross Sales" include all revenue from the sale of all services and products and all other income of every kind and nature (including stored value gift cards and gift certificates when redeemed but not when purchased, on-premise sales, off-premise sales, catering sales and any other type of sale) related to the Franchised Cafe, whether for cash or credit and regardless of collection in the case of credit. The term Gross Sales does not include: (a) any bona fide documented federal, state or municipal sales taxes collected by you from customers and paid by you to the appropriate taxing authority; (b) the sale of food or merchandise for which refunds have been made in good faith to customers; (c) the sale of furnishings, fixtures, equipment and supplies used in the operation of the Franchised Cafe; (d) customer promotional discounts approved by us; and (e) employee meal discounts.
- (3) You must participate in our electronic funds transfer program authorizing us to utilize a pre-authorized bank draft system. You must sign and complete the Authorization Agreement attached to the Franchise Agreement to authorize and direct your bank or financial institution to pay and deposit directly to our account, and to charge your business checking account ("Electronic Depository Transfer Account" or "EDTA"), the amount of the Royalty Fees, marketing fees and contributions and other amounts due and payable by you under the Franchise Agreement ("Sweep"). We have the right to Sweep your account at any time; however, we will not Sweep your account more than once a week if you are not in default of the

Franchise Agreement or any other agreements with us. We have the right to review your sales numbers within 3 business days following the end of a weekly reporting period and as early as the first business day after the end of a weekly reporting period, we shall calculate the Royalty Fee and any marketing contributions and fees due under the Franchise Agreement and Sweep those amounts directly from the EDTA. You must pay all costs and expenses of establishing and maintaining the EDTA, including transaction fees and wire transfer fees.

- (4) We have the right, following written notice to you, to reallocate and increase your WAO among the Brand Development Fee, National Marketing Fund, Regional Marketing Fund and/or Field Marketing; however, the WAO will not exceed 4.5% of Gross Sales. The marketing fees and advertising funds are described in more detail in Item 11.
- (5) We have the right, in our sole discretion, to establish a National Marketing Fund, and, if we do so, you must contribute to the National Marketing Fund in the amount that we specify in Appendix C to the Franchise Agreement, subject to the WAO limits set forth in the table above.
- (6) We have the right, in our sole discretion, to establish a Regional Marketing Fund in the geographic area in which your Franchised Cafe is located, and, if we do so, you must contribute to that Fund in the amount that we specify in Appendix C to the Franchise Agreement, subject to the WAO limits set forth in the table above.
- (7) If you fail to timely pay all fees due to us, we may require you to provide a letter of credit from a national bank, on terms set forth in the Manual, equal to 150% of all fees (including royalty fees, marketing contributions and fees, interest and other payments due to us) anticipated to be due annually under all agreements that you have with us.

ITEM 7

ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Amount (Low Range)	Amount (High Range)	Method of Payment ⁽¹⁾	When Due	To Whom Payment Is To Be Made
Development Fee ⁽²⁾	\$10,000	\$10,000	Lump sum	See Item 5	CBC
Initial Franchise Fee ⁽²⁾	\$25,000	\$25,000	Lump sum	See Item 5	CBC
Real Property ⁽⁵⁾	Variable	Variable		As incurred	
Grand Opening Marketing ⁽⁴⁾	\$15,000	\$15,000	As Arranged	30 days before opening to 12 months after opening	Vendors
Pre-Construction Costs ⁽⁵⁾	\$30,000	\$155,000	As arranged	As arranged	Suppliers
Construction Costs ⁽⁶⁾	\$230,000	\$900,098,000	As arranged	As arranged	Contractors/ Suppliers

Type of Expenditure	Amount (Low Range)	Amount (High Range)	Method of Payment ⁽¹⁾	When Due	To Whom Payment Is To Be Made
Front of House Furniture, Fixtures & Equipment ⁽⁷⁾	\$4745,000	\$74,000	As incurred	As Incurred	Contractors/ Suppliers
Back of House Furniture, Fixtures & Equipment ⁽⁸⁾	\$184,000	\$262267,000	As incurred	As Incurred	Contractors/ Suppliers
Smallwares ⁽⁸⁾	\$3832,000	\$45,000	As arranged	As arranged	Suppliers
Exterior Branding ⁽¹⁸⁾	\$21,000	\$81,000	As arranged	As incurred	Contractors/ Suppliers
POS System ⁽¹¹⁾	\$45,000	\$55,000	As arranged	As incurred	Suppliers
Initial Training ⁽¹⁸⁾	\$40,000	\$80,000	As arranged	As incurred	Suppliers
Inventory ⁽¹⁸⁾	\$10,000	\$20,000	As incurred	As incurred	Suppliers
Catering Equipment ⁽¹⁴⁾	\$40,000	\$40,000	As incurred	As incurred	Suppliers
Security Deposits ⁽¹⁸⁾	\$2,000	\$10,000	As incurred	As incurred	Contractors/ Suppliers
Additional Funds – 3 Months ⁽¹⁶⁾	\$125,000	\$400,000	As arranged	As incurred	Suppliers/ Landlord/ Employees
TOTAL ESTIMATED INITIAL INVESTMENT⁽¹⁷⁾	\$862554,000	\$2,172375,000	(does not include real estate costs)		

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- (1) Costs paid to us are not refundable. Whether any costs paid to third parties are refundable will vary based on the practice in the area where your Franchised Cafe is located. We do not offer any financing directly or indirectly for any part of the initial investment.
- (2) The details concerning the payment of the Development Fee and the Initial Franchise Fee are included in Item 5. The only investment required under the Development Agreement is payment of the Development Fee.
- (3) We expect that you will lease the location for the Franchised Cafe, which will vary in size from 3,000 to 4,500 square feet, excluding a patio. Corner Bakery Cafes are typically located in densely populated suburban and urban areas. We cannot estimate the lease payments that you will make to third party lessors since these payments will vary considerably depending upon the property size, type of transaction and location. You may be required to pay the first and last months' lease payment upon signing your lease agreement. Lease agreements may include the following expenses: taxes, insurance,

maintenance, fixed rent (with escalations), percentage rent and other charges related to the operation of the Franchised Cafe.

- (4) At least 60 days before the opening of the Franchised Cafe, you must submit a Grand Opening Required Spending Plan ("Grand Opening Plan") to us, which outlines your proposal for grand opening marketing and promotion of the Franchised Cafe. You must obtain our written consent to the Grand Opening Plan before you begin to implement it. You must modify the Grand Opening Plan as we request, and, thereafter, you may not make any substantial changes to the Grand Opening Plan without our advance written consent. In addition to the Field Marketing expenditure requirements (as described in items 6 and 11), you must, during the period beginning 30 days before the scheduled opening of the Franchised Cafe and continuing for ~~12 months~~ 90 days after the Franchised Cafe first opens for business, spend at least \$15,000 to conduct grand opening marketing and promotion in authorized advertising media and for authorized expenditures. Within 30 days of each grand opening expense that you incur, you must submit to us evidence (by invoice or sample, if applicable) of those grand opening marketing and promotional expenditures.
- (5) This estimate includes costs for project and construction management, design, architectural, kitchen, mechanical, electrical, plumbing and related drawings, engineering, testing, permit expeditor, city permits and fees, and legal costs for lease negotiation. Costs may vary significantly by geographic location.
- (6) Construction costs include all estimated costs incurred in constructing or remodeling a site to conform to our standards, general contractor and sub-contractor fees and other costs to construct leasehold improvements to conform to our standards. In addition, this estimate includes items provided by the tenant for use in the lease space which would remain in the space at the conclusion of the lease (i.e. as walk in cooler, refrigeration, exhaust hoods and fans, patio heaters, carpet, HVAC test & balance, etc.). ~~Cost for~~ The cost of constructing a building shell is not included. The cost of developing a site will vary widely depending upon the location/market, design, configuration, condition of the premises, condition and configuration of existing services and facilities (i.e., air conditioning, electrical and plumbing), the lease terms and the local real estate market. Often, landlords provide allowances for tenant improvements.

Construction costs presented are net of tenant improvement allowances, which vary widely. For Corner Bakery Cafes that opened in 2008 through 2010 ~~2011~~, tenant improvement allowances ranged from approximately \$0 to \$289 1,400,000. Your total net cost to construct a Corner Bakery Cafe may be significantly impacted by the level of tenant improvement allowances received.
- (7) This estimate includes all front of house furniture and fixtures for a Corner Bakery Cafe, including chairs, tables, café curtains and window blinds, décor package, patio furniture and umbrellas.
- (8) This estimate includes the cost of all kitchen equipment, soda system, ice makers, coffee equipment, specialty equipment and sound system.
- (9) The estimate includes cooking, serving and other utensils for food preparation, trash cans, ladders, dollies, etc.
- (10) This estimate includes exterior signage, window graphics and awnings.

- (11) The figure provided is the cost to purchase a computerized cash accounting and point of sale system, including installation. Your costs may vary. We do not require you to use the same hardware as a company-operated Corner Bakery Cafe; however, we require you to use our specified software.
- (12) This estimate includes the cost of sending your Operating Partner, Multi-Unit Manager, General Manager and three Managers of the Franchised Cafe to attend our initial training program in Dallas, Texas. We do not charge a tuition fee for the initial training program, however, you will be responsible for any salaries, meals, lodging, other living expenses and transportation costs incurred by your employees while attending the initial training program. This estimate also includes the pre-opening training salaries for your managers and employees at the Franchised Cafe.
- (13) This estimate includes food products through opening day and initial start-up startup office supplies and restaurant supplies.
- (14) You must acquire equipment to support the catering program delivery service including purchasing or leasing a refrigerated vehicle that meets our specifications for refrigeration installation and delivery capacity. Costs associated with obtaining an approved delivery vehicle include the purchase price or lease costs, upfitting costs (refrigeration & graphics) and delivery costs up to \$39,000. Each vehicle also requires an equipment package which costs up to \$1,000 that includes approved delivery crates, an approved dolly/hand-truck/cart and an anti-slip mat as outlined in our Catering Sales and Operating Procedures Manuals.

We also require additional catering support services such as a fleet management program for delivery vehicle fuel and maintenance, a program for monitoring and approving delivery driver Motor Vehicle Records per our standards and a telecommunications program for delivery personnel. While these costs are variable based on usage, the average monthly costs to maintain these programs is less than \$1,000 per month per delivery vehicle.
- (15) This item is an estimated range for security deposits, utility deposits, business licenses and other prepaid expenses.
- (16) This is our estimate of your expenses for the initial period after your business opens, including professional fees, 3 months of lease payments, the cost of 3 months of inventory (including restaurant equipment and food), payroll, facility expenses like utilities, insurance, pest control, security, repairs and maintenance, complimentary sales and other costs. The range provided also includes our best estimate of the cash requirements, including salaries for hourly employees and managers (excluding bonus) for the first 3 months of operations. For the purpose of this disclosure document, we have estimated the initial period to be 3 months from the date the Franchised Cafe opens for business. These figures are estimates, and we cannot assure you that you will not have additional expenses in starting the Franchised Cafe. Your actual cost will depend on factors like your management skill, experience and business acumen; local economic conditions; the local market for the restaurant; the prevailing wage rate; competition in the market place; and the sales level reached during the initial period. These amounts do not include any estimates for debt service. We relied on our experience with our company-operated Corner Bakery Cafes to derive our estimates for these additional funds.
- (17) We relied on our own experience and information provided to us by our franchisees when preparing these figures. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

ITEM 5

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Proprietary Products

We may, periodically, in our sole discretion, require that you purchase, use, offer and/or promote, and maintain in stock at the Franchised Cafe in those quantities as are needed to meet reasonably anticipated consumer demand, certain proprietary ~~sauces~~bread, sweets, soups, beverages, products, and other ingredients and raw materials that are manufactured in accordance with our proprietary recipes, specifications and/or formulas and/or uniquely specified or sourced ("Proprietary Products"). You must purchase those Proprietary Products only from us or a third party designated and licensed by us to prepare and sell those products (collectively, "Designated Suppliers"). We are not obligated to reveal the recipes, specifications and/or formulas of these Proprietary Products, or the terms and conditions of any supplier or other contracts, to you, non-designated suppliers or any other third parties. Our specifications or minimum standards are included in the Manual. We will update the Manual to reflect any modifications to the specifications or minimum standards. No officer of CBC currently owns an interest in any Designated Supplier; however, in 2011, one of our bread suppliers, Crestone Group Baking Company, one of our bread suppliers, will begin sourcing one bread product from our affiliate Bakery Holdings LLC, which is a subsidiary of our parent, Il Fornaio. Il Fornaio is a subsidiary of IFCB, and several of our directors and officers identified in Item 2 have ownership interests in Il Fornaio-IFCB.

Non-Proprietary Ingredients & Products

We may designate other food products, condiments, beverages, fixtures, smallwares, furnishings, equipment, uniforms, supplies, services, menus, packaging, forms, paper products, software, modems and peripheral equipment and other products and equipment, other than Proprietary Products, that you must use and/or offer and sell at the Franchised Cafe ("Non-Proprietary Products"). You may use, offer or sell only those Non-Proprietary Products that we have expressly authorized, and those products must be purchased or obtained from a producer, manufacturer, supplier or service provider that we have approved ("Approved Supplier") or an alternative Approved Supplier that we have designated or approved. No officer of CBC owns an interest in any Approved Supplier.

Each Approved Supplier must comply with our usual and customary requirements regarding insurance, indemnification and non-disclosure, and must demonstrate to our reasonable satisfaction: (1) its ability to supply a Non-Proprietary Product meeting our specifications, which may include, without limitation, specifications as to brand name, contents, manner of preparation, ingredients, quality, freshness and compliance with governmental standards and regulations; and (2) its reliability as to delivery and the consistent quality of its products and services.

Our Approved Product and Supplier List is available upon written request. Neither CBC nor any of our affiliates are Designated or Approved Suppliers for any category of goods or services. We estimate that the purchase of products that are subject to our standards and specifications represents approximately 90% of your overall purchases in establishing and operating the Franchised Cafe. Currently, we do not provide material benefits (such as renewal or granting additional franchises) to you based on your use of Approved Suppliers.

We and our affiliates may negotiate purchasing arrangements under which suppliers agree to make equipment, products and services available to Corner Bakery Cafes. ~~If we or We and our affiliates may receive any fees, rebates, commissions, volume discounts or other payments from third-party suppliers based on your purchases from them, we will pay you your pro-rata share of~~

made by our franchisees. Our current policy is to forward any such rebates, commissions or other payments to our franchisees based on your/their purchases from those third-party suppliers.

Although we do not currently do so, we reserve, however, we may change this policy in the right to negotiate system-wide purchasing arrangements, including pricing terms, with suppliers for the benefit of all Corner Bakery Cafes/future. We do not currently have purchasing or distribution cooperatives, but we reserve the right to establish them.

We have entered into arrangements with several suppliers that have agreed to pay rebates or commissions to us based on purchases made by franchised and company-operated Corner Bakery Cafes. These rebates and commissions are usually based on the amount of product ordered. Generally, the amount ranges from \$1 to \$2 per case and, for soft drinks, the amount is based on (i) the number of Corner Bakery Cafes in the System and (ii) the number of bottles of soda or gallons of soda syrup used by the System.

Supplier Approval Process

If you desire to procure Non-Proprietary Products from a supplier other than one previously approved or designated by us, you must deliver written notice to us which must: (1) identify the name and address of that supplier; (2) contain that information as may be requested by us or required to be provided pursuant to the Manual (which may include reasonable financial, operational and economic information regarding its business); and (3) identify the authorized Non-Proprietary Products desired to be purchased from that supplier. We will, upon your request, furnish specifications for those Non-Proprietary Products if the specifications are not contained in the Manual. We may request that the proposed supplier furnish us, at no cost to us, product samples, specifications and other information as we may require. We, or our representatives, including qualified third parties, will also be permitted to inspect the proposed supplier's facilities and establish economic terms, delivery, service and other requirements consistent with other distribution relationships for Corner Bakery Cafes.

As an additional condition of our approval, we may require a supplier to agree in writing to: (1) provide periodically, upon our request, free samples of any Non-Proprietary Product it intends to supply to you; (2) faithfully comply with our specifications for applicable Non-Proprietary Products sold by it; (3) sell any Non-Proprietary Product bearing our Marks only to our franchisees and only pursuant to a trademark license agreement in the form required by us; (4) provide to us duplicate purchase invoices for our records and inspection purposes; (5) make the products available to all of our company-operated and franchised Corner Bakery Cafes; and (6) otherwise comply with our reasonable requests.

We will use our good faith efforts to notify you of our decision within 120 days after our receipt of product samples from the proposed alternative supplier and all other requested information. If we approve the supplier, that supplier will be designated an "Alternative Approved Supplier." We reserve the right, at our option, to re-inspect the facilities and products of any Alternative Approved Supplier and to revoke our approval upon the suppliers' failure to continue to meet any of the criteria above. You or the proposed supplier must pay to us in advance all of our reasonably anticipated costs in reviewing the application of the Alternate Approved Supplier and all current and future reasonable costs and expenses, including travel and lodging costs, related to inspecting, re-inspecting and auditing the Alternate Approved Suppliers' facilities, equipment and food products and all product testing costs paid by us to third parties.

We are not obligated to disclose the terms and conditions, including the pricing, to anyone as to Proprietary or Non-Proprietary Products. We may also determine that certain Non-Proprietary Products (e.g., beverages) will be limited to a designated brand or brands.

Computer Equipment

You must purchase or lease, at your expense, the computer hardware and software, required dedicated telephone and power lines, DSL or better transmission lines, modems, printers, and other computer-related accessories and peripheral equipment that we may specify for the purpose of, among other functions, recording financial and customer data and communicating with us. We may require you to use proprietary software and any other computer systems that we may prescribe periodically, and you must sign those agreements as we may require concerning those systems. We may prescribe a specific point of sale system or other proprietary computer hardware and software systems, which you must purchase. See Item 11 for additional information.

Insurance

You are responsible for all loss or damage arising from or related to your development and operation of the Franchised Cafe and all demands or claims with respect to any loss, liability, personal injury, death, property damage or expense occurring upon the premises of, or arising from the development and/or operation of, each Franchised Cafe. You should maintain in full force and effect that insurance that you determine is necessary or appropriate for liabilities caused by or occurring in the development or operation of each Franchised Cafe, including, at minimum, insurance policies of the kinds, and in the amounts, required by us. CBC, and any entity with an insurable interest that we designate, must be an additional insured in those policies to the extent each has an insurable interest. We may reasonably increase the minimum coverage required and require different or additional kinds of insurance to reflect inflation, changes in standards of liability, higher damage awards or other relevant changes in circumstances. We will provide to you written notice of those modifications, and you must take prompt action to secure the additional coverage or higher policy limits. All insurance policies must be written by an insurance company (or companies) that has received and maintains at least an "A-" rating by the latest edition of Best's Insurance Rating Service.

You must procure insurance for each Franchised Cafe at least 15 days before you take possession of the site for a Franchised Cafe. With respect to each Franchised Cafe, the required insurance policies include, at a minimum, the following: (1) Commercial General Liability Insurance, including broad form contractual liability, broad-form property damage, personal injury, completed operations, products liability, and fire damage coverage, in the amount of \$1,000,000 per occurrence for and \$2,000,000 annual aggregate; coverage must apply on a per location basis. (2) "All Risk" Property Insurance, including fire and extended coverage insurance (including vandalism and malicious mischief insurance, earthquake insurance and flood insurance where applicable) for the Franchised Cafe in an amount equal to at least the full replacement value of the Franchised Cafe, any Tenant Improvements and all Business Personal Property; (3) Worker's Compensation Insurance and such other insurance as may be required by statute or rule of the state or locality in which the Franchised Cafe is located (this coverage must also be in effect for all of your employees who participate in any of our training programs and must include Employer's Liability Insurance in the amount of \$100,000 per person, \$500,000 in the aggregate and \$100,000 for occupational disease); (4) Business Interruption and Extra Expense Insurance, including rental payment continuation for a minimum of 12 months, loss of profits and other extra expenses experienced during the recovery from property loss; (5) Plate Glass Insurance for replacement of glass from breakage; (6) ~~Employer's Liability Insurance in the amount of \$1,000,000 per person, \$1,000,000 in the aggregate and \$1,000,000 for occupational disease;~~ (7) ~~Loss of Business Income and Trade Name Restoration due to a Food Borne Illness Policy in the amount of \$250,000;~~ (8) Builder's Risk Insurance for any construction, renovation, refurbishment or remodeling of the Franchised Cafe, and for any new construction, or substantial renovation, refurbishment or remodeling of the Franchised Cafe, performance and completion bonds in forms and amounts, and written by a carrier or carriers,

reasonably satisfactory to us; (98) Business Auto Liability insurance including coverage for all owned, non-owned and hired autos with a limit of liability of not less than \$1,000,000 per occurrence (combined single limit for bodily injury and property damage); and (409) Excess "Umbrella" Liability insurance providing liability insurance in excess of the coverage limits in clauses (1), (6) and (9), on a coverage form at least as broad as those policies, with a limit of not less than \$2,000,000 per occurrence and \$2,000,000 Annual Aggregate.

ITEMS

FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Agreement	Disclosure Document Item
a. Site selection and acquisition/ lease	FA: 3.B., 3.C. & Appendix E DA: 4.B. – 4.E. & Appendix D	7 & 11
b. Pre-opening purchases/leases	FA: 3.C., 3.G., 5.D., 10.D. & 11 & Appendix E DA: 4.E., 4.L., 5 & Appendix D	7 & 8
c. Site development and other pre-opening requirements	FA: 3 DA: 2 & 4	6, 7 & 11
d. Initial and ongoing training	FA: 9 DA: 6	5, 6, 7 & 11
e. Opening	FA: 3.I., 3.J., 9.A. & 9.C. DA: 4.K. & 4.L.	11
f. Fees	FA: 4, 6 & 9 & Appendices A & C DA: 3 & Appendix B	5 & 6
g. Compliance with standards and policies/manuals	FA: 3, 7, 8 & 10 DA: 4	8 & 11
h. Trademarks and proprietary information	FA: 12 DA: Not Applicable	13 & 14
i. Restrictions on products/ services offered	FA: 10.A., 10.C. & 10.D. DA: Not Applicable	16
j. Warranty and customer service requirements	FA: 10.K.(3) DA: Not Applicable	11
k. Territorial development and sales quotas	FA: 1.A.-C. & Appendix A DA: 1.A. & 1.C. & Appendices A & B	12
l. Ongoing product/service purchases	FA: 10.C. & 10.D. DA: Not Applicable	8

Obligation	Section in Agreement	Disclosure Document Item
m. Maintenance, appearance and remodeling requirements	FA: 8.C., 10.I. & 10.K DA: Not Applicable	11
n. Insurance	FA: 11 DA: 5	6 & 7
o. Advertising	FA: 6 & Appendix C DA: Not Applicable	6 & 11
p. Indemnification	FA: 22 DA: 15	6
q. Owner's participation/staffing/management	FA: 10.H. & 13.F.-H. DA: 7	11 & 15
r. Records and reports	FA: 3.F.(3), 3.I. & 5 DA: 4.H.(3)	6
s. Inspections and audits	FA: 3.J., 5.C., 9.F., 10.A.(3), 10.J. & 18.D. DA: 4.H.	6 & 11
t. Transfer	FA: 14 & 15 DA: 8 & 9	17
u. Renewal	FA: 2.B. DA: Not Applicable	17
v. Post-termination obligations	FA: 19 DA: 13	17
w. Non-competition covenants	FA: 17 DA: 11	17
x. Dispute resolution	FA: 27 DA: 20	17

ITEM 10

FINANCING

We do not offer any direct or indirect financing. We do not guarantee your note, lease or obligation.

We may refer you to leasing or financing companies not affiliated with us. We and our affiliates receive no fees or other financial benefits from any lender for your financing. Currently, we will not guarantee your note, lease, or obligation, for any lender, or any other person or entity. For 2012, we engaged an advisor who will provide consulting services to franchisees to assist them with securing financing and we pay the advisor for this assistance to franchisees. We will not be responsible for the consultant's provision of services to you and if you choose to use the consultant, you must sign the consultant's form of agreement.

ITEM 11

FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING

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

Our Obligations Before Opening

Before you open your Franchised Cafe, we will:

1. Provide: (a) our site selection criteria and, as you request, a reasonable amount of consultation with respect thereto; and (b) such on-site evaluation as we may deem advisable as part of our evaluation of your request for site acceptance. (Development Agreement, Section 4.B.; Franchise Agreement, Section 3.B.)

2. Within 30 days after our receipt of the completed Site Application, advise you in writing whether we have accepted or refused to accept the proposed site. If we do not respond within that time period, we will be deemed to have refused to accept the proposed site. Our acceptance or refusal to accept a proposed site may be subject to reasonable conditions as determined in our sole discretion. (Development Agreement, Section 4.D.(1) ; Franchise Agreement, Section 3.B.(4))

~~3. Provide you with a spaco plan layout ("Spaco Plan") and exterior signage plan ("Signago Plan") for the first three Franchised Cafes that you develop. During the preparation of your Spaco Plans and Signage Plans, we will provide you and your respective architect/designer with design training and criteria so that you will be prepared to complete the Spaco Plan and Signage Plan on all units that you develop after your third Franchised Cafe. We will prepare the Spaco Plan and Signago Plan for additional Franchised Cafes developed by you for a fee as periodically specified in the Manual. You must submit Spaco Plans and Signago Plans to us electronically in Auto-Cad V. 2004 software (or later) and PDF for approval. We reserve the right to make any changes to the Spaco Plans or Signago Plans as submitted. We will provide approval, or approval with changes, within 10 days after we receive the Spaco Plans and Signago Plans. (Development Agreement, Section 4.G.(1); Franchise Agreement, Section 3.E)~~

3. Provide you with a Space Plan and Signage Plan for each Franchised Cafe that you develop. (See Item 5). (Development Agreement, Section 4.G.(1); Franchise Agreement, Section 3.E.)

4. Provide a construction orientation program for you and your general contractor for the first Franchised Cafe that you develop. The orientation will be conducted in a manner and location deemed appropriate by us and will review the construction standards and procedures commonly employed to construct a Corner Bakery Cafe. You may request additional construction orientation at a fee as periodically specified in the Manual. (Development Agreement, Section 4.H.(1); Franchise Agreement, Section 3.F.(1))

5. Provide you with a final inspection of the Franchised Cafe, if we choose to conduct one, and provide you with express written authorization to open the Franchised Cafe if you have complied with all conditions. (Development Agreement, Section 4.K; Franchise Agreement, Section 3.I.)

6. Provide you with any development training we require. (Development Agreement, Section 6.A.)

7. Loan you a copy of our confidential and proprietary Manual, which contains information that is unique, necessary and material to the System. The Manual remains our property. We may revise the contents of the Manual, and you must comply with each new or changed section. We maintain our operations manual and various policy manuals on a searchable proprietary limited access intranet portal. (Franchise Agreement, Section 7) This intranet portal is a proprietary limited access website and access will not be granted to outside vendors or other agency partners. Since the information is in electronic format only and is constantly being updated, the number of pages for the categories of information available vary, change and are indeterminate. We will make the Manual available for your inspection at our offices before you open a Franchised Cafe if you first sign a Confidentiality Agreement, which is attached as Exhibit F.

8. Provide consultation and advice to you as we deem appropriate with regard to the development and operation of the Franchised Cafe, building layout, furnishings, fixtures and equipment plans and specifications, employee recruiting, selection and training, purchasing and inventory control and those other matters as we deem appropriate. (Franchise Agreement, Section 9.A.)

9. Unless you (or your affiliates) already operate at least three Franchised Cafes or one of your Franchised Cafes has been certified as a Certified Training Cafe (as described below), provide an initial training program to your Operating Partner, Multi-Unit Manager, General Manager and up to three Managers of the Franchised Cafe and any other person designated by us. You must pay all salaries, meals, lodging, other living expenses and transportation costs incurred by your employees while attending the initial training program. (Franchise Agreement, Section 9.B.(1))

10. For your first two Franchised Cafes, provide an opening team of trainers (not to exceed eight personnel) to assist in the opening of the Franchised Cafe and in training your employees for the period deemed necessary by us, which shall not be less than 13 days. For your third Corner Bakery Cafe opening, we will provide opening support (not to exceed four personnel) for the period deemed necessary by us, which shall not be less than 13 days, and you must provide your own opening team of trainers. For your fourth and any additional Corner Bakery Cafe openings, you will provide your own opening team of trainers from your Certified Training Cafe (as described below). (Franchise Agreement, Section 9.C.(1))

Our Obligations After Opening

During the operation of your Franchised Cafe, we will:

1. Use the Brand Development Fee to create, maintain, administer, direct and prepare advertising and promotional activities for the System. (Franchise Agreement, Section 6.C.)

2. Collect, administer and spend for advertising purposes monies paid by franchised and company-operated Corner Bakery Cafes into the National Marketing Fund and any Regional Marketing Fund. (Franchise Agreement, Sections 6.D.-F.)

3. Provide you with guidelines for marketing and promotions periodically. You must submit to us for our prior approval all marketing plans and promotional materials not prepared or previously approved by us and that vary from our standard marketing and promotional materials. (Franchise Agreement, Section 6.I.(2))

4. Change or modify the System (if we so desire), including modifications to the Manual, menu and menu formats, required equipment, signage, building and premises of the Franchised Cafe (including the trade dress, décor and color schemes), presentation of the Marks, adoption of new administrative forms and means of reporting and payment of any monies owed to us

and adoption and use of new or modified Marks or copyrighted materials. (Franchise Agreement, Section 8.A.)

5. Periodically advise and consult with you about issues arising from your operation of the Franchised Cafe. We, as we deem appropriate, will provide to you our knowledge and expertise regarding the System and pertinent new developments, techniques and improvements in the areas of restaurant design, management, food and beverage preparation, sales promotion, service concepts, employee recruiting, selection and training, purchasing and inventory control and those other matters as we deem appropriate. We may provide these services through visits by our representatives to the Franchised Cafe or your offices, the distribution of printed, filmed or electronic information, meetings or seminars, telephone communications, email communications or other communications. (Franchise Agreement, Section 9.F.)

6. We periodically will inspect the Franchised Cafe and its operations to assist your operations and ensure compliance with the System. At your request, we may provide special assistance at the Franchised Cafe for which you will be required to pay our per diem fees and charges that we establish periodically. (Franchise Agreement, Sections 9.F. & 10.J.)

Advertising

You will have a weekly advertising obligation ("WAO") which currently equals 2.0% of Gross Sales of the Franchised Cafe. Currently, you must pay a Brand Development Fee in the amount of 0.5% of Gross Sales and you must spend 1.5% of Gross Sales for Field Marketing as described below.

Following written notice to you, we may increase the WAO and reallocate the WAO among the Brand Development Fee, a National Marketing Fund, a Regional Marketing Fund and/or your Field Marketing expenditures, each of which is described below. The WAO will not exceed 4.5% of the Gross Sales of the Franchised Cafe.

We currently do not have any franchisee advertising council that advises us on advertising policy; however, we may, as we deem appropriate, seek the advice of our franchisees by formal or informal means regarding the creative concepts and media used for programs financed by the National Marketing Fund and the Regional Marketing Funds (collectively, "Funds").

Grand Opening Advertising

As described in item 7, in addition to the Field Marketing expenditure requirements (as described in item 6 and below), you must, during the period beginning 30 days before the scheduled opening of the Franchised Cafe and continuing for ~~12 months~~ 90 days after the Franchised Cafe first opens for business, spend at least \$15,000 to conduct grand opening marketing and promotion in authorized advertising media and for authorized expenditures.

Brand Development Fee

We use the Brand Development Fee to cover the costs of, among other things, creating, maintaining, administering, directing and preparing menus and other advertising and promotional activities for the benefit of the System. We may use the Brand Development Fee for public relations efforts, brand design elements, interactive and digital strategies, research and other related programs that we deem appropriate. Corner Bakery Cafes operated by us and our affiliates also pay a Brand Development Fee on the same basis as comparable franchisees. In our last fiscal year, we spent the Brand Development Fees in the following approximate amounts: ~~44~~ 15% on media and

public relations; 40³⁸% on point of purchase items, artwork and packaging; 22²⁴% on research and development; and 24²³% on the Corner Bakery website and interactive and digital strategies.

National Marketing Fund

We have the right, in our sole discretion, to establish, maintain and administer the National Marketing Fund for expenses incurred in connection with the creation and development of advertising, marketing, design and public relations, research and related programs, activities and materials that we, in our sole discretion, deem appropriate. When we establish the National Marketing Fund, you must contribute to the National Marketing Fund in the amount we specify. Our vendors and suppliers also may contribute to the National Marketing Fund. We may work with an advertising agency in developing advertising for print, radio and television, which may be local, regional and/or national in scope.

We or our designees will use the payments to the National Marketing Fund in the manner we determine in our sole discretion to develop advertising, promotional, public relations, administrative and related purposes. We may furnish you with marketing, advertising and promotional materials that we produce or have produced for a fee, plus any related administrative, shipping, handling and storage charges. Corner Bakery Cafes owned by us and our affiliates will also contribute to the National Marketing Fund on the same basis as comparable franchisees.

Regional Marketing Funds

We have the right, in our sole discretion, to establish one or more regional marketing funds for Corner Bakery Cafes ("Regional Marketing Funds"). If a Regional Marketing Fund is established for a geographical area that includes the Franchised Location, you must contribute to that Regional Marketing Fund in the amount we specify. We or our designee will direct all advertising, marketing and public relations programs and activities financed by the Regional Marketing Fund, with sole discretion over the creative concepts, materials and endorsements used in those programs and activities, and the geographic, market and media placement and allocation of advertising and marketing materials. All expenditures from each Regional Marketing Fund will be made to benefit the geographic area to which it applies. Corner Bakery Cafes operated by us and our affiliates in an area covered by a Regional Marketing Fund will contribute to the Regional Marketing Fund on the same basis as comparable franchisees.

Administration of the Funds

We reserve the right to have an affiliate or a designee manage any Fund. We will separately account for the Funds; however, we will not be required to segregate any of the Funds from our other monies. None of the Funds will be used to defray any of our general operating expenses. Each Fund may hire employees, either full-time or part-time, for its administration. We and our affiliates may be reimbursed by each Fund for expenses directly related to the Fund's marketing programs, including, without limitation, conducting market research, preparing advertising and marketing materials and collecting and accounting for contributions to each Fund. Contributions to each Fund are not held by us in trust and we do not have any fiduciary obligation to you with respect to contributions to any Fund.

All disbursements from the Funds will be made first from income and then from contributions. While our intent is to balance each Fund on an annual basis, periodically, a Fund may run at either a surplus or deficit. We may spend in any fiscal year an amount greater or less than the aggregate contributions of all company-owned and franchised Corner Bakery Cafes to a Fund in that year. Each Fund may borrow from us or other lenders to cover deficits in that Fund, and we may cause the Fund to invest any surplus for future use by the Fund. We will prepare annually an unaudited statement of monies collected and costs incurred by the Funds and furnish a copy to you upon your

written request. We will have the right to cause each Fund to be incorporated or operated through an entity separate from us at the time that we deem appropriate, and that successor entity will have all of our rights and duties regarding the Funds.

We have no obligation to ensure that expenditures by each Fund in or affecting any geographic area (including the Franchised Location) are proportionate or equivalent to the contributions to the National Marketing Fund and any Regional Marketing Fund by Corner Bakery Cafes operating in that geographic area, or that any Corner Bakery Cafe will benefit directly or in proportion to its contribution to the National Marketing Fund or a Regional Marketing Fund from the development of advertising and marketing materials or the placement of advertising.

We reserve the right, in our sole discretion, to: (1) suspend contributions to and operations of any Fund for one or more periods that we determine to be appropriate; (2) terminate any Fund upon 30 days' written notice to you and establish, if we so elect, one or more new Funds; and (3) defer or waive, upon the written request of any franchised or company-operated Corner Bakery Cafes, any advertising contributions required by the Franchise Agreement if, in our sole judgment, there has been demonstrated unique, objective circumstances justifying any waiver or deferral. On termination of a Fund, all monies in that Fund will be spent for advertising and/or promotional purposes. We have the right to reinstate any Fund upon the same terms and conditions set forth in the Franchise Agreement upon 30 days' prior written notice to you. We, in our sole discretion and as we deem appropriate in order to maximize media effectiveness, may transfer monies from the National Marketing Fund to any Regional Marketing Fund or from any Regional Marketing Fund to the National Marketing Fund. We will not use any of the Funds for advertising that is principally a solicitation for the sale of franchises.

Field Marketing Expenditures

As indicated above, you must pay for local advertising and promotion of the Franchised Cafe ("Field Marketing") the amount set forth in an appendix to the Franchise Agreement (i.e., the balance of the WAO), as later modified by us. You must furnish us with annual Field Marketing plans 60 days before your grand opening and by November 1st of the previous year for each year thereafter. You must provide documentation to us regarding all Field Marketing expenditures on the 15th day of each month.

if you do not make the required Field Marketing expenditures, we may collect the funds from you and spend them on your behalf for Field Marketing. We will provide you with at least 30 days prior notice of any change in your required Field Marketing expenditures. Field Marketing expenditures include the following pre-approved expenditures: (1) amounts spent by you for advertising media, like electronic, print, radio, television and outdoor, banners, posters, direct mail, grassroots premiums, event invites, and, if not provided by us at our cost, the cost of producing approved materials necessary to participate in these media; and (2) coupons and special (or promotional) offers pre-approved by us. Field Marketing expenditures do not include amounts spent for items, in our reasonable judgment, deemed inappropriate for meeting the minimum advertising requirement, including permanent on-premises signage, menu boards, menus, occasion signage, Yellow Pages advertising, lighting, personnel salaries or administrative costs, transportation vehicles (even though those vehicles may display the Marks), product costs associated with redemption of coupons and promotional offers, and employee incentive programs.

You must use in your marketing efforts the marketing materials available from us, which will be made available to you at your expense, in the manner and frequency we require. You must submit to us for our prior approval, all marketing plans, written materials and samples of all marketing, public relations and promotional materials not prepared or previously approved by us and that vary from our standard marketing, public relations and promotional materials. if you elect to

work with a marketing agency, you must obtain our written approval of that agency, which approval we may in our sole discretion withhold, before you sign any contracts or share any Confidential Information (as defined in the Franchise Agreement) with the agency.

If purchased from a source other than CBC or our affiliates, these materials must comply with federal and local laws and regulations and with the guidelines for marketing and promotions promulgated periodically by us or our designee and must be submitted to us or our designee at least 30 days before first use for our approval, which we may grant or withhold in our sole discretion. Your advertising may not contain any statement or material which, in our sole discretion, may be considered: (1) in bad taste or offensive to the public or to any group of persons; (2) defamatory of any person or an attack on any competitor; (3) to infringe upon the use, without permission, of any other persons' trade name, trademark, service mark or identification; or (4) inconsistent with the public image of the System or the Marks.

Technology

Computer and Point of Sale Systems. Currently, we do not require you to use a specific company-operated Corner Bakery Cafes use IRIS Point of Sale or computer operating system. However, your computer system must be capable of recording financial and customer data and communicating software developed by XPIENT Solutions with us. Your point-of-sale system must record all sales at the Franchised Cafe and be fully compatible with our computer system. Your point of sale system must include Panasonic Point of Sale Terminals purchased through Retail Technology Group, an information interface capability to communicate electronically with our computer system to provide us with continuous transaction level point-of-sale data. We may proscribe a specific point of sale system or other proprietary computer hardware and software systems, which you will need to purchase unaffiliated third-party supplier. You must purchase and install our specified IRIS Point of Sale Software and sign a software license or other end user agreement with our software provider XPIENT Solutions. There may be point of sale terminal hardware that performs the same functions as Panasonic Point of Sale Terminals. If you desire to use point of sale terminal hardware other than Panasonic Point of Sale Terminals, we will consider your request if the system meets our requirements. You can expect to spend between \$45,000 to \$55,000 to purchase a complete point of sale and back office system.

You must provide such assistance as may be required to connect your computer system and point of sale system with our computer system. We will have the right to retrieve transaction level data through point of sale electronic reporting as well as time of order to time of delivery data and other information from your computer system as we deem necessary or desirable. You must cooperate fully with those efforts. There are no contractual limitations on our right to access this information and data. You will be required to provide us with all of the data that Corner Bakery Cafes operated by us and our affiliates provide to us in a format readily usable by us. In view of the contemplated interconnection of computer systems and the necessity that those systems be compatible with each other, you must comply strictly with our standards and specifications for all items associated with your computer system.

~~Currently, company-operated Corner Bakery Cafes use PixelPoint Point-of-Sale Software developed by ParToch and ParToch Point-of-Sale Terminals, which are required for companies using PixelPoint. There may be other systems that perform the same functions as those mentioned above. If you desire to use a point-of-sale system other than the PixelPoint Point-of-Sale Software and the ParToch Point-of-Sale Terminals, we will consider your request if the system meets our requirements.~~

To ensure full operational efficiency and optimum communication capability among computer systems installed at all Corner Bakery Cafes, you must, at your expense, to keep your computer

systems in good maintenance and repair, and to promptly install those additions, changes, modifications, substitutions or replacements to hardware, software, telephone and power lines, and other computer-related facilities, as we direct. There is no contractual limitation on the frequency and cost of the obligation.

~~ParTeoh~~ has XPIENT Solutions, Panasonic and Retail Technology Group each have a standard warranty on their products, and extended warranty and maintenance programs may be available. We estimate that the current annual cost of an optional and/or required maintenance/support contract, including upgrades/updates, may range from \$1,000 to \$5,000, depending on numbers and types of equipment. Upgrade and maintenance costs are subject to change, without notice.

~~ParTeoh~~ XPIENT currently offers help desk support to Corner Bakery Cafes at a rate of ~~\$831~~08 per month; however, ~~ParTeoh~~ XPIENT may modify its fees in the future. ~~Spartan-Computer Services~~ Retail Technology Group currently offers hardware maintenance on all point of sale and back office computer equipment at a rate of ~~\$244~~150 per month depending on the type of point of sale system and equipment used and whether the equipment is under warranty. You are not required to use either of these support programs.

You must have a multi-line phone system with separate lines for catering. Company-operated Corner Bakery Cafes currently use Avaya Partner phone systems with five handsets. You can expect to spend between \$4,000 and \$5,000 for the phone system and all required cabling.

You must have broadband Internet connection capabilities to ensure efficient system functionality. We currently use XO Communications, an unaffiliated third party supplier, to provide phone service and broadband Internet access for Company-operated Corner Bakery Cafes. XO has agreed to offer you a discounted rate, provided that they service your market.

Credit Card and Gift Card Processing. You are required to accept debit cards, credit cards, stored value gift cards or other non-cash payment systems specified by us to enable customers to purchase authorized products and to obtain all necessary hardware and/or software used in connection with these non-cash payment systems. For each Franchised Cafe, you must sign our Stored Value Gift Card Program Participation Agreement that is attached as Appendix F to the Franchise Agreement. You also are required to comply with our standards for processing electronic payments and all other standards, laws, rules and regulations applicable to electronic payments that may be published from time to time by payment card companies and applicable to electronic payments including the Payment Card Industry ("PCI") Data Security Standards at the same level, Fair and Accurate Credit Transactions Act. All costs of certification as our Company-operated Corner Bakery Cafes. You complying with such electronic payment requirements are required to use ValuoLink for gift card processing and Bank of America Merchant Services or another approved processor as at your credit card processor. Both of these suppliers offer our corporate rates to our franchisees. We may negotiate different arrangements with different providers of these services expense.

Our credit card processor is and gift card processor is Bank of America Merchant Services, an unaffiliated third party supplier, and our gift card processor is ValuoLink, an unaffiliated third party supplier. Both Credit cards and gift cards are required services. ValuoLink is required for gift card processing, and you must use Bank of America Merchant Services or another approved processor as your credit card processor for both of these services. Bank of America Merchant Services and ValuoLink have agreed to offer to you our corporate rates. We may negotiate different arrangements with different providers of these services. We will notify you of any change in approved suppliers for these products.

Selecting the Site for Your Franchised Cafe

We do not select the site for your Franchised Cafe. You select the site for your Franchised Cafe, subject to our acceptance of the site. You must select, and we must accept, the site for your Franchised Cafe before you may enter into a Franchise Agreement with us. As noted in item 1, you should not acquire any interest in a site for your Franchised Cafe until you have been approved as a franchisee, and we have accepted the site in writing.

You must submit a site application to us that contains the information we reasonably require for each proposed site which you reasonably believe conforms to our site selection criteria ("Site Application"). Each Site Application must include, among other things, a description of the proposed site, a market feasibility study for the proposed site, a letter of intent (or other written confirmation demonstrating your ability to acquire the proposed site) and a summary of how the site meets our site selection criteria. We may change our site selection criteria periodically, which may include demographic characteristics, traffic count and patterns, parking, character of the neighborhood, competition from other businesses in the area, the proximity to other businesses (including restaurants operated or franchised by CBC or our affiliates), the nature of other businesses in proximity to the site and other commercial characteristics (including the purchase price, rental obligations and other lease terms for the proposed site) and the size, appearance, other physical characteristics, and a site plan of the premises.

We may refuse to accept a site for a proposed Franchised Cafe unless you demonstrate sufficient financial capabilities, in our sole judgment, applying standards consistent with criteria we use to establish Corner Bakery Cafes in other comparable market areas, to properly develop, operate and maintain the proposed Franchised Cafe. Accordingly, you must furnish to us those financial statements and other information regarding you (or your Affiliated Entity which may sign the Franchise Agreement for that site) and the development and operation of the proposed Franchised Cafe, including, without limitation, investment and financing plans for the proposed Franchised Cafe, as we reasonably may require.

Within 30 days after our receipt of the completed Site Application (which must include all information and materials regarding a proposed site that we reasonably request), we will advise you in writing whether we have accepted or refused to accept the proposed site. If we do not respond within that time period, we will be deemed to have refused to accept the proposed site. Our acceptance or refusal to accept a proposed site may be subject to reasonable conditions as determined in our sole discretion.

Our acceptance of a site for any Franchised Cafe and any information communicated to you regarding our site selection criteria for Corner Bakery Cafes does not constitute a warranty or representation of any kind, express or implied, as to the suitability of any site for a Corner Bakery Cafe or for any other purpose. Our acceptance of a site is not a representation or a promise by us that a Corner Bakery Cafe at the site will achieve a certain sales volume or a certain level of profitability. Similarly, our acceptance of one or more sites and our refusal to accept other sites is not a representation or a promise that the site will have a higher sales volume or be more profitable than a site which we did not accept.

Time Between Agreement Signing and Opening

We estimate that the time from your receiving site acceptance from us to your opening of the Franchised Cafe is approximately 12 months. Factors affecting the length of time needed to open the Franchised Cafe usually include your ability to obtain a lease and adequate financing, weather, local requirements and procedures for necessary permits and zoning, shortages or delayed installation of

equipment, signs and fixtures and special circumstances affecting construction in a particular area, none of which are within our control.

Training

Initial Training Program

Before the opening of your first 3 Franchised Cafes, your Operating Partner, your Multi-Unit Manager, your General Manager and three Managers of the Franchised Cafe and any other person designated by us, must attend, and become certified in, our initial training program in the operation of a Corner Bakery Cafe. The initial training program will include classroom instruction and training at our designated training facilities, which may be a Corner Bakery Cafe operated by us or our affiliates that is located in Dallas, Texas, unless one of your Corner Bakery Cafes has been certified as a Certified Training Cafe as discussed below.

After the opening of the Franchised Cafe, any employee of yours who assumes any of the positions listed above or the position of Shift Supervisor must, before assuming that position, attend the initial training program and receive our certification for that position. If we provide the initial training program to these additional employees, you must pay to us a training fee at the then-current rate being charged by us to franchisees for that training, and you are solely responsible for all meals, lodging and other living expenses and transportation costs incurred by your employees while attending the training.

The initial training program will generally last up to 12 weeks for Operating Partners and Multi-Unit Managers, up to 8.5 weeks for General Managers and Managers and up to 8 weeks for Shift Supervisors. We offer the initial training program during the year on an as-needed basis. The initial training program is scheduled so that it is completed sufficiently in advance of your Franchised Cafe's initial opening to afford adequate time for the Franchised Cafe's set-up and the hiring and training of employees before the opening of the Franchised Cafe. We will bear all expenses for the initial training program (if conducted before the opening of the Franchised Cafe); however, you will be required to pay all meals, lodging, other living expenses and transportation costs incurred by your employees while attending the initial training program. We will authorize the Franchised Cafe to open only after an adequate number of your employees, as determined by us in our sole discretion, have attended and successfully completed the initial training program.

Our initial training program falls under the direction of the following individuals: (1) Cherie Neyrey, Director of Training, who has ~~24~~22 years of training experience, most recently with CBC (2 year~~3~~ years), Friendly's Ice Cream Corp. (2 years); Al Copeland's Investments (5 years); and Dickie Brennans (2 years); (2) Stephanie Holland, Senior Training & Development Manager, who has ~~9~~10 years of training experience with CBC; and (3) Paul Hicks, Vice President of Training and Operations Services, who has ~~42~~13 years of training experience with CBC, 2 years of training experience with Einstein's Bagels and 9 years of training experience with Little Caesar's.

TRAINING PROGRAM

The following chart summarizes the subjects taught during the Initial training program in the operation of a Corner Bakery Cafe:

SUBJECT	Shift Supervisor	Manager / General Manager	Ops Partner/Multi-Unit	LOCATION
Orientation	8	8	8	Our Corporate Headquarters In Dallas, Texas
Kitchen Skills	90	90	90	Corner Bakery Cafe operated by us or our affiliates In Dallas, Texas, our Corporate Headquarters or other approved regional area
Counter & Catering Skills	150	150	150	Corner Bakery Cafe operated by us or our affiliates in Dallas, Texas or our Corporate Headquarters
Manager Fundamentals	50 – 70	70	70	Corner Bakery Cafe operated by us or our affiliates In Dallas, Texas
Cafe Skills	20 – 60	100	100	Corner Bakery Cafe operated by us or our affiliates in Dallas, Texas
GM Admin	0	0 - 30	0 – 30	Corner Bakery Cafe Franchise Operation or Certified Training Café
Advanced GM Admin	0	0	0 – 120	Corner Bakery Cafe operated by us or our affiliates In Dallas, Texas, our Corporate Headquarters or other approved regional area
Total	318 - 378	418 - 448	418 - 568	

The instructional materials for the initial training program include the Stepping Stones Manual and Employee OJT Manual.

Certified Training Cafes

If you operate three or more Franchised Cafes, within 90 days after you open your third Franchised Cafe, you must establish one of your Cafes as a Certified Training Cafe at which your trainers will offer the initial training program to your employees and opening training for future Franchised Cafes that you develop. We will not certify one of your Franchised Cafes as a Certified Training Cafe unless you operate three or more Franchised Cafes. We must certify the Franchised Cafe as a Certified Training Cafe before you may begin training there. We may periodically visit the Certified Training Cafe to ensure that it continues to meet our standards. Failure of one of your Franchised Cafes to qualify (or continue to qualify) as a Certified Training Cafe will constitute a default of your Franchise Agreement with us. In that event, your General Manager, Managers and any other employees of the Franchised Cafe designated by us must attend and successfully complete our initial training program at a training facility designated by us, which may be a company-operated Corner Bakery Cafe. You will be required to pay a tuition fee for your employees who attend the training program in addition to paying all meals, lodging, other living expenses and transportation costs incurred by your employees while attending the training program.

Additional Training

We have the right (which may be exercised at any time and in our sole discretion) to require that your Operating Partner, Multi-Unit Manager, General Manager, Managers and any other employees designated by us take and successfully complete other training courses in addition to the initial training program described above. Although we do not currently require you to pay a tuition fee for additional training programs, we reserve the right to require you to pay a fee as established by us periodically within 30 days of receipt of an invoice from us. You will be required to pay all meals, lodging, other living expenses and transportation costs incurred by your employees while attending the training.

ITEM 12

TERRITORY

Development Agreement

You will receive a Development Area, which will be mutually agreed upon by CBC and you, taking into consideration the density of the area and the number of Franchised Cafes that you agree to develop. A description of the Development Area will be attached as an appendix to the Development Agreement. The perimeters of the Development Area may be described by specific street boundaries, county lines, state lines, municipal boundaries, railroad tracks, or other similar boundary descriptions, and the size may range from a portion of a metropolitan area to a county or a state in less densely populated areas.

The System (including the products sold under the Marks (as defined in item 13)) has been developed, and is designed, to function effectively in a wide variety of retail environments, many of which are not practically available to you. Accordingly, we reserve the rights to: (1) operate, and license others to operate, restaurants identified in whole or in part by the Marks and/or utilizing the System in the Development Area that are located in gas stations or convenience stores, transportation facilities, including airports, train stations, subways and rail and bus stations, military bases and government offices, professional sports facilities, including stadiums and arenas, amusement parks, zoos, convention centers, car and truck rest stops, travel centers, educational facilities, recreational theme parks, hospitals, business or industrial foodservice venues, venues in which foodservice is or may be provided by a master concessionaire or contract foodservice provider, indian reservations, casinos and any similar captive market location not reasonably available to you; (2) award national, regional or local licenses to third parties to sell products under the Marks in foodservice facilities primarily identified by the third party's trademark; (3) merchandise and distribute products identified by the Marks in the Development Area through any method or channel of distribution other than through the operation of a restaurant or catering services; (4) sell and distribute products identified by the Marks in the Development Area to restaurants other than restaurants identified by the Marks, provided that those restaurants are not licensed to use the Marks in connection with their retail sales; (5) sell products and services through other channels of distribution, including the internet, wholesale, mail order and catalog; (6) operate, and license others to operate, during the term of the Development Agreement, restaurants identified in whole or in part by the Marks at any location outside of the Development Area; (7) operate, and license others to operate, after the Development Agreement terminates or expires, restaurants identified in whole or in part by the Marks at any location, including locations inside the Development Area; (8) operate, and license others to operate, at any location, including locations inside the Development Area, during or after the term of the Development Agreement, any type of restaurant other than a restaurant identified in whole or in part by the Marks; (9) develop and own other franchise systems for the same

or similar products and services using trade names and trademarks other than the Marks; and **(10)** purchase, be purchased by, merge or combine with, businesses that directly compete with Corner Bakery Cafes.

Except as reserved in the preceding paragraph, we will not, during the term of the Development Agreement, operate, or license others to operate, restaurants identified in whole or in part by the Marks in the Development Area, provided that you are in compliance with the terms of the Development Agreement and any other agreements with us or our affiliates and are current on all obligations to us and our affiliates. The restrictions contained in this paragraph will not apply to Corner Bakery Cafes in operation or under lease, construction or other commitment to open in the Development Area as of the effective date of the Development Agreement.

There are no minimum sales quotas or other conditions that must be met in order to maintain your limited exclusivity in the Development Area. However, if you are in default of the Development Agreement (which may include, but is not limited to, a default for failing to comply with the Development Schedule) or any Franchise Agreement and fail to cure the default within the applicable cure period (if any), we may terminate the Development Agreement and the limited exclusivity in the Development Territory. You do not receive the right under the Development Agreement to develop or operate any Franchised Cafes in addition to the number specified in the Development Schedule or any other options, rights of first refusal or similar rights in the Development Territory.

Franchise Agreement

Protected Area

Under the Franchise Agreement, we will grant you the right to operate continuously the Franchised Cafe at the Franchised Location. You do not receive the right under the Franchise Agreement to develop or operate more than one Franchised Cafe. If you comply with the Franchise Agreement, during the term of the Franchise Agreement, we and our affiliates will not operate, or license others to operate, Corner Bakery Cafes within an agreed upon area surrounding the Franchised Location ("Protected Area"); however, this restriction will not apply to Corner Bakery Cafes in operation or under lease, construction or other commitment to open in the Protected Area as of the effective date of the Franchise Agreement. Typically, the Protected Area will be set as a radius of ¼ to 3 miles around the Franchised Location based on demographic parameters that are described in the Manual.

We reserve the rights to: **(1)** operate, and license others to operate, restaurants identified by the Marks and/or utilizing the System in the Protected Area that are located in gas stations or convenience stores, transportation facilities, including airports, train stations, subways and rail and bus stations, military bases and government offices, professional sports facilities, including stadiums and arenas, amusement parks, zoos, convention centers, car and truck rest stops, travel centers, educational facilities, recreational theme parks, hospitals, business or industrial foodservice venues, venues in which foodservice is or may be provided by a master concessionaire or contract foodservice provider, Indian reservations, casinos, and any similar captive market location not reasonably available to you; **(2)** award national, regional or local licenses to third parties to sell products under the Marks in foodservice facilities primarily identified by the third party's trademark; **(3)** merchandise and distribute products identified by the Marks in the Protected Area through any method or channel of distribution other than through the operation of a restaurant or catering services; **(4)** sell and distribute products identified by the Marks in the Protected Area to restaurants other than restaurants identified by the Marks, provided that those restaurants are not licensed to use the Marks in relation to their retail sales; **(5)** sell products and services through other channels of distribution, including the internet, wholesale, mail order and catalog; **(6)** operate, and license others

to operate, during the term of the Franchise Agreement, restaurants identified by the Marks at any location outside of the Protected Area; (7) operate, and license others to operate, after the Franchise Agreement terminates or expires, restaurants identified by the Marks at any location, including locations inside the Protected Area; (8) operate, and license others to operate, at any location, including locations inside the Protected Area, during or after the term of the Franchise Agreement, any type of restaurant other than a restaurant identified by the Marks; (9) develop and own other franchise systems for the same or similar products and services using trade names and trademarks other than the Marks; and (10) purchase, be purchased by, merge or combine with, businesses that directly compete with Corner Bakery Cafes.

You may not relocate the Franchised Cafe without our prior written consent. If we approve a relocation of the Franchised Cafe, we may charge you for all reasonable charges actually incurred by us in connection with our consideration of your relocation request and, within 6 months after you receive our written notice of approval, you must relocate and commence operations of the Franchised Cafe at the new site. We will not extend the term of the Franchise Agreement if you relocate the Franchised Cafe.

Catering Services

You must participate in the Corner Bakery Cafe Catering Program and provide the catering services designated by us from the Franchised Cafe to customers located within your Protected Area subject to your obligation to follow our procedures and menu requirements, purchase all supplies, products and ingredients through our Approved and Designated Suppliers and otherwise follow the Manual as to the catering services.

During the term of the Franchise Agreement, you have the exclusive right to directly solicit catering customers and provide catering services from the Franchised Cafe only within the Protected Area. You may not directly solicit catering customers or provide catering services outside of the Protected Area, unless you obtain our prior written permission. "Direct solicitation" includes, but is not limited to, solicitation in person, by telephone, by mail, by email, and by distribution of brochures, business cards or other materials. If any of your advertising for catering services within the Protected Area is in media that will or may reach a significant number of persons outside of the Protected Area, you must notify us in advance and obtain our prior written consent. We may establish rules and policies from time to time regarding catering advertising.

We may, in our sole discretion, grant written permission to you to directly solicit catering customers and provide catering services in a geographic area adjacent to your Protected Area that we have not assigned as a protected area of another Corner Bakery Cafe ("Extended Catering Area"). Upon receipt of written notice from us, you must stop directly soliciting catering customers and providing catering services in the Extended Catering Area and you must provide us with all customer information that you have acquired relating to that area. You will not have any rights of first refusal to any open area.

If you are a party to an Area Development Agreement with us, during the term of that Agreement, you also will have the exclusive right to directly solicit catering customers and provide catering services within any portion of your Development Area that we have not assigned as a protected area of another Corner Bakery Cafe. Upon the expiration or earlier termination of the Area Development Agreement, you will no longer have the right to directly solicit catering customers or provide catering services within your Development Area.

* * *

Except as described above, we and our affiliates may establish other franchised or company outlets under the Marks and/or under other marks that may compete with your location. We and our

affiliates may merchandise and distribute goods and services identified by the Marks through methods or channels of distribution other than restaurants. We have no obligation pay any compensation to you if we exercise these rights. Except as described above with respect to catering services, there are no restrictions on the areas in which you may advertise or solicit customers. We reserve all rights to use and license the System other than those we expressly grant you under the Development Agreement and the Franchise Agreement.



You also may compete with the restaurants and stores operated by our affiliates and franchisees of our affiliates that are located near your Franchised Cafe. Item 1 describes our current affiliated franchise programs, most of which are not direct competitors of the System given the products/services they sell. There is no formal mechanism in place for resolving any conflict that may arise between your Franchised Cafe and the units of our affiliated franchise systems. However, we do not expect any material conflicts regarding territory, customers and franchise support.




ITEM 13

TRADEMARKS

We grant you the right to operate a cafe under the name "Corner Bakery Cafe®" and to use our other current or future trademarks in the operation of your Franchised Cafe. By Marks, we mean all words, symbols, insignia, devices, designs, trade names, service marks (or combinations of those words, symbols, insignia, devices, trade names or service marks) designated by us as identifying the System and the products sold and services provided in relation to the System. We represent that we have the right to use, and license others to use, the Marks. We will periodically advise you as to any additions to, or deletions from, the Marks, and your right to use the Marks will be deemed modified by those additions or deletions.

In addition to other registered trademarks, we have registered the following principal Marks with the United States Patent and Trademark Office ("PTO") on the Principal Register:

Trademark	Registration No.	Registration Date
Corner Bakery Cafe	2,597,050	July 23, 2002
Corner Bakery	2,565,101	April 30, 2002
	2,741,172	July 29, 2003
		
Comer Bakery Catering	2,597,054	July 23, 2002
Feed the Day	2,677,427	January 21, 2003
We've Got Catering Cornered	3,054,416	January 31, 2006

 	2,078,299	July 15, 1997
	3,182,859	December 12, 2006

~~We acquired those Marks in February 2006 by assignment from Brinker Restaurant Corporation ("BRC"), an affiliate of Brinkor, as part of our purchase of the System.~~

You must follow our rules when you use the Marks. You cannot use the Marks or any variations of the Marks or marks or names confusingly similar to the Marks in any manner not authorized by us or in any corporate, limited liability company or partnership name and cannot use any other trade names, service marks or trademarks in your operation of the Franchised Cafe.

There are no presently effective material determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court concerning the principal Marks. There are no pending infringement, opposition or cancellation proceedings or material litigation involving the principal Marks. There are no agreements currently in effect that significantly limit our right to use or license the use of the Marks in any manner material to you. We do not know of either superior prior rights or infringing uses that could materially affect your use of the principal Marks in any state. We are aware that there are companies that have made use of the word "corner" and/or "bakery" in their trade or business names, as used in their common linguistic sense.

You may not directly or indirectly contest the validity, or our ownership, of the Marks. The Franchise Agreement requires you to notify us immediately if any litigation involving the Marks is instituted or threatened against you. You also must fully cooperate in defending or settling the litigation. We will reimburse you for all costs and expenses related to any actions that you take with this regard.

We agree to reimburse you for all damages and expenses that you incur in any trademark infringement proceeding challenging your authorized use of any Mark under the Franchise Agreement if you have timely notified us of, and comply with our directions in responding to, the proceeding, and you have used the Mark(s) in compliance with the Franchise Agreement, the

Manual, and any other directives from us. At our option, we may defend and control the defense of any proceeding arising from your use of any Mark under the Franchise Agreement.

You cannot promote, offer or sell any products or services, or use any of the Marks, as part of your operation of the Franchised Cafe, through the Internet, any Website or any other similar future technological avenues without our prior written consent, which we may withhold for any or no reason. The term "Website" means one or more related documents, designs, or other communications that can be accessed through electronic means (including, but not limited to, the Internet, the World Wide Web, and social networking sites like Facebook, Twitter, LinkedIn, blogs, vlogs, and other applications, etc.). We have no Immediate plans to permit those Websites or Internet use. You may not have a Website accessible by the public, or any part of the public, without our prior written consent, which we may withhold for any or no reason. For any consent, we may establish those requirements that we deem appropriate, including: (1) obtaining our prior written approval of any Internet domain name and home page addresses; (2) the proposed form and content (including any visible and non-visible content like meta-tags) of any Website related to the Franchised Cafe; (3) submission for our approval of all Website pages, materials and content; (4) use of all hyperlinks and other links; (5) restrictions on the use of any materials (including text, video clips, photographs, images, and sound bites) in which any third party has any ownership interest; and (6) obtaining our prior written approval of any modifications. We may designate the form and content of your Website and/or require that any Website be hosted by us or a third party designated by us, using one or more Websites that we own and/or control. In addition, we may require you to establish hyperlinks to our Website or another Website designated by us. We may charge you a fee for developing, reviewing and approving your Website and/or for hosting the Website. You must assign to us any domain names that you obtain containing the Marks that we, in our sole discretion, request and assign all domain names containing the Marks used by you in the operation and promotion of the Franchised Cafe when the Franchise Agreement is terminated.

You shall comply with our standards for the System, as set forth in the Manual or otherwise, with regard to our authorization to use, and the use of, blogs, common social networks (including Facebook, Myspace and Pinterest), professional networks (including LinkedIn), live blogging tools (including Twitter), virtual worlds, file, audio and video sharing sites and other similar social networking media or tools that in any way references the Marks or involves the System or Franchised Cafe.

If we should elect to use a principal name other than "Corner Bakery Cafe" to identify the System, we may select another name and notify you to change all or some items bearing the Marks to the new name within a reasonable period of time as determined by us and you promptly shall adopt that name. You will bear the sole cost and expense of making these changes and we shall have no obligation or liability to you as a result of any changes.

ITEM 14

PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

We do not own any patents or copyrights that are material to your Franchised Cafe or the System. However, we claim copyright protection in the Manual and certain forms, architectural, engineering and construction plans, advertising materials, product specifications, computer programs, newsletters, training materials and operations and accounting materials. We have not registered those materials with the United States Registrar of Copyrights.

The Manual and these other materials contain our detailed standards, specifications, instructions, requirements, methods and procedures for the management and operation of your

Franchised Cafe. The Manual also may relate to the (1) selection, purchase, storage, preparation, packaging, ingredients, recipes, service and sale of all products and beverages sold at the Franchised Cafe; (2) management and employee training; (3) marketing, advertising and sales promotions; (4) maintenance and repair of the Franchised Cafe building, grounds, equipment, graphics, signs, interior and exterior décor items, fixtures and furnishings; (5) employee dress attire and appearance standards; (6) menu concept and graphics; (7) accounting, bookkeeping, records retention and other business systems, procedures and operations; (8) news flashes covering important developments to the System during the most recent 8 weeks; (9) reports and other information useful for financial evaluation and planning; (10) resources, tools, including training materials, marketing resources, reference materials and promotional initiatives; and (11) contact information for Corner Bakery Cafe support centers, vendors, franchisees, and Cafe locations.

The Manual and all other materials and information provided or disclosed to you regarding the System ("Confidential Information") are disclosed in confidence. You must take all measures necessary (and all security protocols we require) to limit access and insure confidentiality of the Manual, including the use of pass codes, firewalls, and other available technology; refrain from reproducing the Manual or any part of it; and disclose the contents of the Manual only to your employees who have a need to know.

If a prospective franchisee wishes to receive from us certain Confidential Information to evaluate the possibility of entering into a franchise agreement with us to establish and operate one or more Corner Bakery Cafes, we will require the prospective franchisee and those employees of the prospective franchisee who will have access to the Confidential Information to sign a Confidentiality Agreement (a copy of the current form of Confidentiality Agreement is attached as Exhibit F) before granting access to the Confidential Information.

We are not required by any agreement to protect or defend copyrights or Confidential Information, although we intend to do so as appropriate.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

You must designate an individual who has been approved by us to serve as the "Operating Partner" of your Franchised Cafe. The Operating Partner must be a member of your Continuity Group (as described below) and, at a minimum, must have full control over and devote his or her best efforts to supervising the day-to-day operations of the Franchised Cafe and all other Franchised Cafes that you operate, unless you have named and we have approved a Multi-Unit Manager. The Operating Partner may not, without our prior written approval, engage in any other business or activity, directly or indirectly, that requires substantial management responsibility or time commitments or otherwise may conflict with your obligations under the Franchise Agreement.

The Operating Partner must, among other things: (1) own and control, or have the right to own and control (subject to terms and conditions reasonably acceptable to us), at least a 10% interest in your equity and voting rights (unless you were a publicly-held entity or a wholly-owned subsidiary of a publicly-held entity as of the date of the first franchise-related agreement between you and us); (2) have the authority to bind you regarding all operational decisions regarding the Franchised Cafe; (3) have completed our initial training program to our satisfaction; (4) be the person with whom we communicate as to development and operations matters; and (5) live within a 100-mile radius of the Franchised Cafe.

If you and your affiliates own or control more than three Franchised Cafes and your Operating Partner requests our approval to devote less than full time to supervising the operation of your Franchised Cafes, you also must designate and retain an individual to serve as the Multi-Unit Manager of up to eight Franchised Cafes under the supervision of the Operating Partner. You must designate additional Multi-Unit Managers for every eight Franchised Cafes that you operate.

The Multi-Unit Manager must, among other things: (1) devote full time and best efforts to supervising the operation of up to eight Franchised Cafes and cannot engage in any other business or activity, directly or indirectly, that requires substantial management responsibility; (2) successfully complete our initial training program and any additional training that we require; and (3) be approved by us.

For a 6-month period following the opening, the Franchised Cafe shall at all times be under the on-site supervision of your Operating Partner, Multi-Unit Manager or General Manager and three Managers (one of whom may be a Shift Supervisor if approved by us) who meet all applicable training qualifications for their designated position or title. Thereafter, the Franchised Cafe shall at all times be under the on-site supervision of your Operating Partner, Multi-Unit Manager or General Manager and two Managers (one of whom may be a Shift Supervisor if approved by us) who meet all applicable training qualifications for their designated position or title.

If at any time you fail to employ at least three managers who have successfully completed our initial training program, we have the right, in our sole discretion, to send our personnel to the Franchised Cafe to manage the Franchised Cafe until you have hired replacement managers and they have successfully completed our initial training program. For the first 60 days of their placement with you, you shall pay us the salaries (including the cost of fringe benefits, which the parties agree equal 20% of their salaries) and all meals, lodging, other living expenses and transportation costs of our management personnel. Thereafter, you shall pay us double the salaries (including the cost of fringe benefits, which the parties agree equal 20% of their salaries) and all meals, lodging, other living expenses and transportation costs of our management personnel.

You must designate a group of individuals to serve as your "Continuity Group." If you are a corporation, the Continuity Group must at all times own at least 66% of your voting securities; if you are a limited liability company, the Continuity Group must at all times own at least 66% of your membership interests; and if you are a partnership, the Continuity Group must at all times have at least a 66% interest in the operating profits and losses and at least a 66% ownership interest in you. As stated above, your Operating Partner must be a member of your Continuity Group.

Each member of the Continuity Group, your Operating Partner, each person who holds a legal or beneficial interest in you of 10% or more ("OwnerPrincipal(s)") and each of your officers, directors (unless you are a publicly-held entity) and limited liability company managers must sign a personal guaranty assuming and agreeing to discharge all of your obligations to us, unless we, in its sole discretion, waive or modify this requirement.

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must use the Franchised Cafe solely for the operation of a Corner Bakery Cafe and must maintain in sufficient supply, and use and/or sell at all times, only those menu items, ingredients, products, materials, supplies and paper goods as conform with our standards and specification and refrain from deviating from those standards by the use or offer of non-conforming items, without our prior written consent. You may only offer for sale or sell products and services at the Franchised Cafe or through the Corner Bakery Cafe Catering Program in the Protected Area.

You must operate the Franchised Cafe for those days and hours as we specify in the **Manual** or otherwise in writing.

You must meet and maintain the highest health standards and ratings applicable to the Franchised Cafe. You must comply with all mandatory specifications, standards and operating procedures (as modified periodically) concerning the operation of the Franchised Cafe as we prescribe in the **Manual** or otherwise in writing.

You must offer for sale and sell at the Franchised Cafe only those menu items, products and services as have been expressly approved for sale in writing by us; offer for sale and sell all types of menu items, products and services specified by us; refrain from any deviation from our standards and specifications without our prior written consent; and discontinue offering for sale and selling any menu items, products or services that we may, in our discretion, disapprove in writing at any time. We may restrict sales of menu items to certain time periods during the day. We have the right to change the menu items, ingredients, products, materials, supplies and paper goods or the standards and specifications of each, and there are no limits on our ability to do so. You must promptly comply with the new requirements. We also may, in our sole discretion, restrict sales of menu items to certain time periods during the day. We do not limit the customers to whom you may sell goods or services.

See Items 8 and 9 for more specific information on restrictions covering what you may sell.

ITEM 17

RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

These tables list certain important provisions of the **Development Agreement** and **Franchise Agreement**. You should read these provisions in the agreements attached to this disclosure document.

DEVELOPMENT AGREEMENT

PROVISION	SECTION IN DEVELOPMENT AGREEMENT	SUMMARY
a. Length of the franchise term	Section I.A.	The Development Term begins on the date on which we sign the Development Agreement and terminates on the date that the last Franchised Cafe must be opened according to the Development Schedule.
b. Renewal or extension of the term	Not Applicable	Not Applicable
c. Requirements for you to renew or extend	Not Applicable	Not Applicable
d. Termination by you	Not Applicable	Not Applicable

PROVISION	SECTION IN DEVELOPMENT AGREEMENT	SUMMARY
e. Termination by us without cause	Not Applicable	Not Applicable
f. Termination by us with cause	Section 12	We may terminate upon default.
g. "Cause" defined-curable defaults	Section 12.B.(14)	You have 10 days to cure monetary defaults. You have 30 days to cure defaults other than those discussed in h.
h. "Cause" defined non-curable defaults	Sections 12.B.(1-13)	Non-curable defaults include: failure to comply with the Development Schedule; beginning construction before receipt of fully-signed Franchise Agreement for that location; insolvency; bankruptcy; execution levied against your business or property; unsatisfied judgment of more than \$25,000 against you for more than 30 days; material breach of covenants; transfer without approval; material misrepresentation; felony conviction, material breach of any representation or warranty; property blocked under any law regarding terrorist activities; default beyond cure period under other agreements with CBC or our affiliates, any real estate, equipment lease or financing instrument involving any Franchised Cafe, or with any vendor or supplier to any Franchised Cafe; failure to pay taxes when due Involving any Franchised Cafe or its employees; and default after receipt of 2 or more notices of default within 12 months.
i. Your obligations on termination/non-renewal	Section 13	Obligations include, but are not limited to: forfeiture of right to develop; termination of limited exclusive rights In Development Area; return of materials to us; continued observance of covenants; payment of amounts due to us and our affiliates; and forfeiture of Development Fee.
j. Assignment of contract by us	Section 8	There are no restrictions on our right to assign.
k. "Transfer" by you-defined	Section 9.A.	Includes sale, assignment, transfer, conveyance, gift, pledge, mortgage or other encumbrance of any interest in you, your Owners Principals or the Development Agreement, or all or substantially all of the assets pertaining to your operations under the Development Agreement.
l. Our approval of transfer by you	Sections 9.B. & 9.E.	We have the right to approve transfers. Certain transfers may be undertaken without our prior approval.

PROVISION	SECTION IN DEVELOPMENT AGREEMENT	SUMMARY
m. Conditions for our approval of transfer	Sections 9.B. & 9.C.	Conditions include, but are not limited to: simultaneous transfer to the same transferee of the same interest in all agreements regarding your operations in the Development Area; compliance with Development Agreement and all other agreements with CBC and our affiliates; payment of amounts due; qualified transferee; completion of any specified training programs; signed release (a copy of the current form of General Release is attached as Exhibit E); reasonable debt service; if applicable, subordination of transferee's obligations to you and any security interests reserved by you in the assets transferred to transferee's obligations to pay all amounts due CBC and our affiliates and comply with the Development Agreement or other agreements with CBC; execution of non-competition covenant and those other documents as we require; payment of transfer fee equal to \$7,500 for each Franchised Cafe that remains to be developed plus our associated costs <u>including our outside counsel fees</u> ; and execution of personal guaranty under the terms of which your Oweors <u>Principals</u> will remain liable for all obligations to us incurred before the transfer and for 1 year following the transfer.

n. Our right of first refusal to acquire your business	Section 9.J.	CBC can match any offer for your business.
o. Our option to purchase your business	Not Applicable	Not Applicable
p. Your death or disability	Section 9.E.	Following death or permanent incapacity of any of your Owners <u>Principals</u> , transfer to spouse, children, parents, sibling or a member of your Continuity Group is permitted. That transfer must be completed within a reasonable time, not to exceed 6 months from the date of death or permanent disability.
q. Non-competition covenants during the term of the franchise	Section 11.C.	No interest in any business in the casual dining market or fast-casual segment of the restaurant industry that (1) is substantially engaged in the selling of the following menu items: artisan baked breads, salads, sandwiches, soups, baked goods and/or coffee; or (2) whose method of operation or trade dress is similar to that employed in the Corner Bakery System ("Competitive Business").

PROVISION	SECTION IN DEVELOPMENT AGREEMENT	SUMMARY
r. Non-competition covenants after the franchise is terminated or expires	Section 11.C.	No activity as described in q. above for 2 years within the Development Area and within 10 miles of any then-existing Corner Bakery Cafe. In addition, you may not, for 2 years after expiration, termination or transfer of the Development Agreement, sell, assign, lease or transfer any Authorized Site to any person or entity that intends to operate a Competitive Business at that Authorized Site.
s. Modification of the agreement	Section 19	No modification generally without signed agreement, but we may modify the System.
t. Integration/merger clause	Section 19	Only the terms of the Development Agreement, the Manual the documents referred to in and the attachments to the Development Agreement are binding. Except for the statements contained in this disclosure document, you may not rely on any other oral or written statements you may have been provided about the franchise.
u. Dispute resolution by arbitration or mediation	Section 20	Either party may submit a claim arising out of the Development Agreement to non-binding mediation; however, the parties will not be required to pursue mediation of any claim as a prerequisite to commencing legal proceedings.
v. Choice of forum	Section 20.C.	Subject to state law, you <u>and we</u> can only file suit where our <u>CBC's</u> principal offices are located, and we may file suit in at the jurisdiction where our principal offices are located, where you reside or do business, where the Development Area or any Franchised Cafe <u>is or was located or where the claim arose</u> is located .
w. Choice of law	Section 20.B.	Subject to state law, Texas law applies.

FRANCHISE AGREEMENT

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
a. Length of the franchise term	Section 2	20 years from the date the Franchised Cafe opens.
b. Renewal or extension of the term	Section 2.B.	You will have the option to remain a franchisee at the Franchised Location for a successor term of 10 years.

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
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c. Requirements for you to renew or extend	Section 2.B.	In order to remain a franchisee for a successor term, you must: give timely notice; remodel the Franchised Cafe; not be in default under any agreement with us or our affiliates, any real estate lease, equipment lease or financing instrument involving the Franchised Cafe and any agreement with any vendor or supplier to the Franchised Cafe; for the 12 months before your notice, you must not have been in default beyond the applicable cure period under any agreements with us or our affiliates; have the right to remain in possession of the Franchised Location for the successor term; sign general release (a copy of the current form of General Release is attached as Exhibit E); comply with training requirements; and pay a successor franchise fee. You also must sign our then-current form of Successor Franchise Agreement, which may contain terms and conditions substantially different from your original Franchise Agreement, including, without limitation, those relating to royalty fees and advertising obligations.
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d. Termination by you	Not Applicable	Not Applicable
e. Termination by us without cause	Not Applicable	Not Applicable
f. Termination by us with cause	Section 18	We may terminate upon default.
g. "Cause" defined-curable defaults	Section 18.C.	You have 10 days to cure monetary defaults. You have 30 days to cure all other defaults except those discussed in h.
h. "Cause" defined non-curable defaults	Sections 18.B., 18.C.(3) & 18.D.	Non-curable defaults include: cease to operate the Franchised Cafe for more than three consecutive days; insolvency; bankruptcy; execution levied against your business or property; foreclosure; unsatisfied judgment of more than \$25,000 for more than 30 days; material breach of covenants; transfer without approval; material misrepresentation; falsification of reports; imminent danger to public health or safety; loss of possession of Franchised Location; felony conviction; breach of representation or warranty; unauthorized use of the Marks; failure or refusal to have the required number of employees attend and successfully complete required training programs; default beyond cure period under other agreements with CBC or our affiliates, contract with any vendor or supplier to the Franchised Cafe or any lease or financing Instrument involving the Franchised Cafe; failure to pay when due any

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
		taxes or assessments involving the Franchised Cafe or its employees; property blocked under any law regarding terrorist activities; default after receipt of 2 or more notices of default within previous 12 months; and receipt of second consecutive failing score on an inspection.

- | | | |
|---|------------|---|
| i. Your obligations on termination/nonrenewal | Section 19 | <p>Obligations include, but are not limited to: cease to operate the Franchised Cafe; cease use of the System, the Marks, the Manual and the Confidential Information; complete de-identification (If we do not exercise our option to purchase); return all items listed in the De-Identification Schedule; cancel any assumed name or equivalent registration that contains the Marks and provide evidence of compliance; assign all telephone numbers and listings to us (if we so elect); if applicable, cancel or assign all of your rights in any web pages using the Marks to us (if we so elect); and payment of all amounts due.</p> <p>If the Franchise Agreement is terminated due to your material breach or default, you must pay us, for 4 years (or the remainder of the initial term if that period is less than 4 years), a continuing royalty fee equal to the total royalty fees due from you for the 52 reporting periods before the termination divided by 52 (or, if the Franchised Cafe was open fewer than 52 reporting periods, the average of all reporting periods during which the Franchised Cafe was open). If we sell a new franchise for a Corner Bakery Cafe in your Protected Area, we will permit you to cease making the continuing royalty fee payments.</p> |
|---|------------|---|

j. Assignment of contract by us	Section 14	There are no restrictions on our right to assign.
k. "Transfer" by you-defined	Section 15.A.	Includes sale, assignment, transfer, conveyance, gift, pledge, mortgage or other encumbrance of any interest in you, your Owners <u>Principals</u> , the Franchise Agreement, the Franchise, substantially all of the assets of the Franchised Cafe, the Franchised Location or any other asset pertaining to your operations under the Franchise Agreement.
l. Our approval of transfer by you	Sections 15.B. & 15.E.	We have the right to approve transfers. Certain transfers may be undertaken without our prior approval.

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
m. Conditions for our approval of transfer	Sections 15.B.-C.	Conditions include, but are not limited to: compliance with Franchise Agreement and all other agreements with CBC and our affiliates; payment of amounts due; qualified transferee; completion of any specified training programs; signed release (a copy of the current form of General Release is attached as Exhibit E); reasonable debt service; transferee must obtain a leasehold or ownership interest in the Franchised Cafe; if applicable, subordination of all of transferee's obligations to you and any security interests reserved by you in the assets transferred to transferee's obligations to pay all amounts due to us and our affiliates and comply with the Franchise Agreement or any other Franchise Agreement signed by transferee; execution of non-competition covenant and any other documents that CBC requires; payment of transfer fee equal to \$3,500 (or the amount set forth in our then-current Franchise Agreement) plus our associated costs <u>including our outside counsel costs</u> ; and execution of personal guaranty under the terms of which your Owners <u>Principals</u> will remain liable for all obligations to us incurred before the transfer date and for 1 year following the transfer.
n. Our right of first refusal to acquire your business	Section 15.J.	We or our designee can match any offer for your business.
o. Our option to purchase your business	Section 20	Upon expiration or earlier termination of the Franchise Agreement, we have the option to purchase from you the Cafe building shell, including any or all of the furnishings, fixtures, equipment, signage, supplies or inventory used in your operation of the Franchised Cafe, excluding any liabilities involving you and/or the Franchised Cafe at a price agreed upon or set by an appraiser.
p. Your death or disability	Section 15.E.	Following death or permanent incapacity of any of your Owners <u>Principals</u> or your Operating Partner, transfer to spouse, children, parents, sibling or a member of your Continuity Group is allowed. The transfer must be completed within a reasonable time, not to exceed 6 months from the date of death or permanent disability.
q. Non-competition covenants during the term of the franchise	Section 17.C.	No interest in any Competitive Business.

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
r. Non-competition covenants after the franchise is terminated or expires	Section 17.C.	No activity as described in q. above for 2 years within the Protected Area or within 10 miles of any then-existing Corner Bakery Cafe. In addition, you may not, for 2 years after the expiration, termination or transfer of the Franchise Agreement, sell, assign, lease or transfer the Franchised Location to any person or entity that intends to operate a Competitive Business at the Franchised Location.
s. Modification of the agreement	Section 26	No modification generally without signed agreement, but CBC may modify the System and the Manual.
t. Integration/merger clause	Section 26	Only the terms of the Franchise Agreement, the Manual, the documents referred to in and the attachments to the Franchise Agreement are binding. Except for the statements contained in this disclosure document, you may not rely on any other oral or written statements you may have been provided about the franchise.
u. Dispute resolution by arbitration or mediation	Section 27.A.	Either party may submit a claim arising out of the Franchise Agreement to non-binding mediation; however, the parties will not be required to pursue mediation of any claim as a prerequisite to commencing legal proceedings.
v. Choice of forum	Section 27.C.	Subject to state law, you <u>and we</u> can only file suit where our <u>CBC's</u> principal offices are located, and we may file at the time suit in the jurisdiction where our principal offices are located, where you reside or do business, where the Protected Area or the Franchised Cafe is or was located or where the claim arose <u>filed</u> .
w. Choice of law	Section 27.B.	Subject to state law, Texas law applies.

ITEM 18

PUBLIC FIGURES

We currently do not use any public figure to promote the sale of our franchises.

ITEM 19

FINANCIAL PERFORMANCE REPRESENTATIONS

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

We have prepared the attached statement to reflect average annual sales volumes, operating expenses and location cash flow for company-operated Corner Bakery Cafes, exclusive of development fees, franchise fees, and royalty fees, and expenses arising from the opening of a Corner Bakery Cafe and personal or corporate interest and taxes which may arise from the financing and operation of a Franchised Cafe. These items are not included in the calculation of average results set forth below because our company-operated restaurants do not incur these expenses. You should refer to items 5, 6 and 7 of this disclosure document for more information on the expenses you will incur in opening and operating a Franchised Cafe.

Typically, company-operated Corner Bakery Cafes are located in both urban and suburban metropolitan areas. Many of our urban locations are considered "limited hour" in that they are open only during the breakfast and lunch day parts or they are open only five days a week. The location of a Corner Bakery Cafe (whether company-operated or franchised) and the demographics of the geographic area can have a material impact on sales and expenses.

The information presented represents the performance of 85 company-operated Corner Bakery Cafes that have been in operation for at least eighteen months. We have not included information related to 16 "limited hour" cafes. All cafes included in the statement offer substantially the same products and services to the public that Franchised Cafes are expected to offer.

The information presented is unaudited and was prepared using uniform accounting methods consistent with generally accepted accounting practices and on a basis consistent with those included in our annual audited consolidated financial statements. All company-operated Corner Bakery Cafes use the same accounting methods and system.

Your sales and expenses in operating a Franchised Cafe are likely to be different from the sales and expenses of company-operated Corner Bakery Cafes and will be directly affected by many factors like location of the cafe, competition in the market, the quality of your management and service at the cafe, your contractual relationships with lessors and vendors, the extent to which you finance the operation of the cafe, your attorney, accounting and other professional fees and certain benefits and economies of scale we may have derived as a result of operating multiple Corner Bakery Cafes on a consolidated basis. Accordingly, this statement is provided as reference information only for your use with other information.

~~STATEMENT OF AVERAGE SALES AND EXPENSES OF COMPANY-OPERATED CORNER BAKERY CAFES~~

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Statement of Average Net Revenue and Expenses
of Company-Operated Corner Bakery Cafes

Jan 2010 - Dec 2010

-				-	-
-	SALES		180,582,129		
-					
-	COMP-UNITS	Comp	85		
				No. of Stores	% of Stores
	Net Sales	\$189,655.55	Averages \$2,231,242	Above Favorable	Above Favorable
		4			
	Delivery Fees	\$2,766,409	\$32,546	Average to Metric	Average to Metric
=				=	=
=	Comp Units		85	=	=
=				=	=
	Net Revenue - AAV	AAV	\$2,230,378	37	43.5%
			263,788		
-				-	-
-	Cost of Goods Sold ²		664,385	4846	56.5%
			\$681,707		54.1%
-				-	-
-	Gross Profit ³		1,568,993	35	44.7%
-				-	-
-	Comps/Discounts ⁴		48,364	47	55.3%
-				-	-
-	Labor (Hourly & Mgmt) ^{5,6}		662,354	4846	56.5%
			\$677,498		54.1%
-				-	-
-	Total Other Operating Expenses ⁶		204,474	4551	52.9%
			\$238,805		60.0%

-					-	-
-	Advertising Expenses	42,987 <u>\$45,901</u>	<u>2.1.9%</u>	<u>x</u>	<u>4748</u>	<u>55.356.5%</u>
-	Fixed Costs & Depreciation ⁷ Depreciation ⁵	429,233 <u>\$106,588</u>	<u>54.8%</u>	<u>x</u>	<u>4449</u>	<u>48.357.6%</u>
-	Occupancy ⁸	<u>\$204,221</u>	<u>9.2%</u>	<u>x</u>	<u>52</u>	<u>61.2%</u>
-	Occupancy ⁸	193,983	<u>8.7%</u>		<u>55</u>	<u>64.7%</u>
-	Restaurant Contribution ⁹ Contribution ⁷	290,901 <u>\$309,067</u>	<u>13.07%</u>	<u>y</u>	<u>3743</u>	<u>43.350.6%</u>
-	Depreciation	110,769 <u>\$98,322</u>	<u>5.4.3%</u>	<u>y</u>	<u>4150</u>	<u>48.258.8%</u>
-	Restaurant Adjusted EBITDA ¹⁰ EBITDA ⁵	\$407,389 <u>410,670</u>	<u>18.40%</u>	<u>y</u>	<u>3840</u>	<u>44.747.1%</u>

x All operational expenses have been expressed as a percentage of Net Sales.

All non-operational expenses (in addition to Restaurant Contribution and Adjusted EBITDA) have been expressed as a percentage of
y Net Revenue

*

NOTES

1. Average Annual SalesNet Revenue Volume (AAV) includes the total of (1) Net Sales from all in-restaurant, "to go", and catering food and beverage sales, but and (2) catering delivery fees. it does not include sales or service taxes. The AAV listed above is reflected on an annualized number.
2. Cost of Goods Sold includes the total costs of all in-restaurant, "to go," and catering food and beverage sales as well as the cost of paper and packaging supplies. We purchase many items used in the operation of company-operated Corner Bakery Cafes under arrangements and contracts that we negotiate with suppliers and distributors, which may have permitted us to purchase and have those items delivered at a volume discount. To the extent these purchasing and distribution arrangements are changed, are not available to you, or you have additional transportation costs, then you should expect to experience higher costs.
3. Gross Profit is calculated by subtracting Cost of Goods Sold from AAV.
4. Comps/Discounts include the dollar amount for coupons, promotional items and employee meals.
5. Labor includes the cost for Hourly and Management Labor costs as well as that of the Catering Sales force, but does not include any salary and overhead for above the store field supervision (e.g., Area and Regional Operations management). Labor costs include employee wages and benefits, employee training expenses, payroll taxes, corporate insurance allocations for group health, workers' compensation and vacation pay. Other benefits which you elect to provide your employees, such as the amount of vacation time and vacation pay, are factors that will affect labor cost. The costs of providing group health insurance for employees and workers' compensation insurance will vary depending on many factors, including the extent and amount of coverage provided, the loss experience of the group, and which insurance provider is chosen. Therefore, you may encounter higher relative costs in obtaining comparable insurance coverage.
6. TotalOther Operating Expenses include restaurant expenses, facility costs, office costs, and miscellaneous operating expenses. Restaurant expenses include items like restaurant supplies, tableware and menus, linen, uniforms, armored car, credit card fees and bank charges. Facility costs include items like telephone expenses, dues and licenses, variable repair and maintenance expenses, maintenance contracts, utilities, trash removal, exterminators, and catering van rentals (including gas and maintenance). Third party credit card processing fees and bank charges are separately negotiated with credit card processors and banks. These fees and charges will vary depending on both the actual and projected volume of transactions and the total dollar value of individual transactions. Therefore, you may experience relatively higher costs for these items. Miscellaneous operating expenses and income include catering delivery fees and gift certificate expense, bonus for the catering sales force, merchandise sales and expenses.
7. Fixed Costs & Depreciation includes fixed expenses like security services and significant repair and maintenance expenses, restaurant evaluation and guest satisfaction services and store depreciation. Depreciation consists of depreciation of property, equipment and leasehold improvements. Property and equipment are depreciated over their estimated useful lives, using the straight-line method. Leasehold improvements are depreciated over the lesser of the applicable lease term, if you lease the Franchised Location, or the estimated useful lives of those assets, using the straight-line method. Estimated useful lives are based on our experience with the various types of assets as limited by generally accepted accounting principles. We advise you to consult with your accounting and tax advisors regarding the effect, if any, of any existing and proposed tax legislation upon this information.

8. Occupancy Costs Include rent, property taxes, property insurance, general liability Insurance and miscellaneous items. Rent consists of minimum rents, percentage rents, common area maintenance charges, and any sales or other taxes imposed thereon and paid by us. Property Taxes are real estate taxes and assessments levied against the property upon which the restaurant is located. The amount or rate of taxation varies from jurisdiction to jurisdiction and you should consult with your tax advisors regarding the impact that these taxes will have on this analysis.

9. Restaurant Contribution is the pre-tax profit for the company-operated Corner Bakery Cafes and is calculated by subtracting Labor, Total ~~Other~~ Operating Expenses, Advertising Expenses, Fixed Costs and Depreciation and Occupancy Costs from Gross Profits.

10. Restaurant Adjusted EBITDA is earnings before interest, Income tax, depreciation, and amortization.

* * *

This statement is provided as a reference only and is not intended to be used as a statement or forecast of earnings, sales, profits, or the prospects or chances of success that may be achieved by any individual franchised Corner Bakery Cafe. We specifically instruct our agents, employees, and officers that, other than as described in this statement, they are not permitted to make claims or statements as to the earnings, sales, or profits, or prospects or chances of success, nor are they authorized to represent or estimate dollar figures as to your operation. We will not be bound by any unauthorized representations as to earnings, sales, profits, or prospects or chances for success.

You should disregard any unauthorized information, whether oral or written, concerning the actual, or average, or projected, or forecasted, or potential sales, costs, earnings, or profits, or the prospects or chances of success of your operation furnished by any person. You should immediately notify us of any unauthorized information or representation by contacting our General Counsel.

Actual results vary from Corner Bakery Cafe to Corner Bakery Cafe and we cannot estimate the results of a particular cafe. We recommend that you make your own independent investigation to determine whether or not a Franchised Cafe operated by you may be profitable and consult with an attorney and other advisors before signing the Development Agreement or Franchise Agreement.

Written substantiation of the data used in preparing this statement will be made available to you upon reasonable request.

The sales figures in this statement of Company-Operated Corner Bakery Cafes should not be considered as actual or potential sales that will be realized by any Corner Bakery Cafe franchisee. The costs in this Statement do not represent all costs you will incur. The costs in this statement are costs incurred by Company-Operated Corner Bakery Cafes, not by franchised Corner Bakery Cafes, and should not be considered as the actual or probable costs that you will realize. We do not represent that your sales or costs will be comparable.

Neither we nor any other person can guarantee the success of a franchisee's Corner Bakery Cafe, and we admonish that a franchisee's cafe may lose money or fail. If you rely upon our figures, you must accept the risk of not doing as well.

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ITEM 20

OUTLETS AND FRANCHISEE INFORMATION

Table No. 1

Systemwide Cafe Summary
For Years ~~2008~~2009 to ~~2010~~2011⁽¹⁾

Cafe Type	Year	Cafes at Start of Year	Cafes at End of Year	Net Change
Franchised Cafes	2008 <u>2009</u>	40 <u>12</u>	42 <u>11</u>	+2 <u>-1</u>
	2009 <u>2010</u>	42 <u>11</u>	44 <u>17</u>	-1 <u>+6</u>
	2010 <u>2011</u>	44 <u>17</u>	47 <u>26</u>	+6 <u>9</u>
Company Owned Cafes	2008 <u>2009</u>	03 <u>10</u>	40 <u>10</u>	+8 <u>3</u>
	2009 <u>2010</u>	40 <u>10</u>	40 <u>10</u>	+3 <u>-3</u>
	2010 <u>2011</u>	40 <u>10</u>	40 <u>10</u>	-3 <u>+2</u>
Total Cafes	2008 <u>2009</u>	40 <u>31</u>	44 <u>31</u>	+4 <u>0</u>
	2009 <u>2010</u>	44 <u>31</u>	44 <u>51</u>	+2 <u>3</u>
	2010 <u>2011</u>	44 <u>51</u>	44 <u>81</u>	+3 <u>11</u>

Table No. 2

Transfers of Franchised Cafes
For Years ~~2008~~2009 to ~~2010~~2011⁽¹⁾

State	Year	Number of Transfers ⁽²⁾
Totals	2008 <u>2009</u>	0
	2009 <u>2010</u>	0
	2010 <u>2011</u>	0

Table No. 3

**Status of Franchised Cafes
For Years 20082009 to 20102011⁽¹⁾**

State	Year	Cafes At Start of Year	Cafes Opened	Terminations	Non-Renewals	Reacquired by CBC	Ceased Operations – Other Reasons ⁽²⁾	Cafes at End of Year ⁽³⁾
AZ	2008 <u>2009</u>	0	0 <u>1</u>	0	0	0	0	0 <u>1</u>
	2009 <u>2010</u>	0 <u>1</u>	4 <u>0</u>	0	0	0	0	1
CA	2010 <u>2011</u>	1	0 <u>1</u>	0	0	0	0	4 <u>2</u>
	2008 <u>2009</u>	0	0	0	0	0	0	0
	2009 <u>2010</u>	0	0 <u>1</u>	0	0	0	0	0 <u>1</u>
IL <u>CO</u>	2010 <u>2011</u>	0 <u>1</u>	4 <u>0</u>	0	0	0	0	1
	2008 <u>2009</u>	5 <u>3</u>	0	0	0	0	0	8 <u>3</u>
	2009 <u>2010</u>	8 <u>3</u>	0 <u>1</u>	0	0	0	8 <u>0</u>	0 <u>4</u>
CO <u>IL</u>	2010 <u>2011</u>	0 <u>4</u>	0 <u>1</u>	0	0	0	0	0 <u>5</u>
	2008 <u>2009</u>	2 <u>5</u>	4 <u>0</u>	0	0	0	0 <u>5</u>	3 <u>0</u>
	2009 <u>2010</u>	8 <u>0</u>	0	0	0	0	0	3 <u>0</u>
NJ <u>MS</u>	2010 <u>2011</u>	8 <u>0</u>	4 <u>0</u>	0	0	0	0	4 <u>0</u>
	2008 <u>2009</u>	0	0 <u>1</u>	0	0	0	0	0 <u>1</u>
	2009 <u>2010</u>	0 <u>1</u>	0	0	0	0	0	0 <u>1</u>
PAN <u>J</u>	2010 <u>2011</u>	0 <u>1</u>	1	0	0	0	0	4 <u>2</u>
	2008 <u>2009</u>	3 <u>0</u>	4 <u>0</u>	0	0	0	0	4 <u>0</u>
	2009 <u>2010</u>	4 <u>0</u>	1	0	0	0	0	8 <u>1</u>
	2010 <u>2011</u>	8 <u>1</u>	0	0	0	0	4 <u>0</u>	4 <u>1</u>

State	Year	Cafes At Start of Year	Cafes Opened	Terminations	Non-Renewals	Reacquired by CBC	Ceased Operations - Other Reasons ⁽²⁾	Cafes at End of Year ⁽³⁾
	<u>1</u>							
MSPA	2008 <u>200</u> <u>9</u>	04	01	0	0	0	0	05
	2009 <u>201</u> <u>0</u>	05	40	0	0	0	01	14
	2010 <u>201</u> <u>1</u>	14	0	0	0	0	0	44
TX	2008 <u>200</u> <u>9</u>	0	01	0	0	0	0	01
	2009 <u>201</u> <u>0</u>	01	42	0	0	0	0	43
	2010 <u>201</u> <u>1</u>	43	24	0	0	0	0	37
UT	2008 <u>200</u> <u>9</u>	0	0	0	0	0	0	0
	2009 <u>201</u> <u>0</u>	0	02	0	0	0	0	02
	2010 <u>201</u> <u>1</u>	02	20	0	0	0	0	2
Total	2008 <u>200</u> <u>9</u>	4012	24	0	0	0	05	1211
	2009 <u>201</u> <u>0</u>	1211	47	0	0	0	51	1417
	2010 <u>201</u> <u>1</u>	1417	79	0	0	0	40	1720

Table No. 4

**Status of Company-Owned Cafes
For Years 20082009 to 20102011⁽¹⁾**

State	Year	Cafes at Start of Year	Cafes Opened	Cafes Reacquired from Franchisees	Cafes Closed	Cafes Sold to Franchisees	Cafes at End of Year
CA	2008	29	3	0	4	0	34
CA	2009	31	3	0	0	0	34
	2010	34	0	0	1	0	33

State	Year	Cafes at Start of Year	Cafes Opened	Cafes Reacquired from Franchisees	Cafes Closed	Cafes Sold to Franchisees	Cafes at End of Year
CO	20082011	033	0	0	0	0	033
DC	2009	05	0	0	0	0	05
	2010	0	0	0	0	0	0
DC	2008	8	0	0	0	0	8
	2009	8	0	0	0	0	5
	2010	5	0	0	0	0	5
GA	20082011	85	01	0	0	0	36
GA	2009	3	0	0	0	0	3
	2010	3	0	0	0	0	3
IL	20082011	323	40	0	40	0	353
IL	2009	35	0	0	1	0	34
	2010	34	0	0	0	0	34
MD	20082011	234	0	0	0	0	234
MD	2009	2	0	0	0	0	2
	2010	2	0	0	0	0	2
PA	2008	0	0	0	0	0	0
	2009	0	0	0	0	0	0
	2010	0	0	0	0	0	0
TX	20082011	482	21	0	0	0	203
TX	2009	20	1	0	0	0	21
	2010	21	0	0	0	2	19
VA	20082011	419	1	0	01	0	819
VA	2009	5	0	0	0	0	5
	2010	5	0	0	0	0	5
Total	20082011	935	400	0	20	0	4045
Total	2009	101	4	0	1	0	104
	2010	104	0	0	1	2	101
	2011	101	3	0	1	0	103

NOTES

- (1) The numbers for ~~2008~~2009 to ~~2010~~2011 are as of ~~December 28, 2008~~27, 2009, ~~December 27, 2009~~26, 2010, and ~~December 26, 2010~~25, 2011. If multiple events occurred that affected a cafe, the tables show the event that occurred last in time.
- (2) Attached as Exhibit G is a list of the address and telephone number of each franchised location, franchisee and developer as of ~~December 26, 2010~~25, 2011. Exhibit G also contains a list of the franchisees whose franchise was terminated, canceled, not renewed or otherwise voluntarily or involuntarily ceased to do business under a franchise agreement during fiscal year ~~2010~~2011 or failed to communicate with **CBC** within 10 weeks of the application date of this disclosure document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

Table No. 5

Projected Openings as of December ~~27~~26, 2011

STATE	FRANCHISE AGREEMENTS SIGNED BUT OUTLET NOT OPENED	PROJECTED NEW FRANCHISED OUTLETS IN NEXT FISCAL YEAR	PROJECTED COMPANY OWNED OUTLETS IN NEXT FISCAL YEAR
AZ	0	4	0
CA	01	01	2
DC EL	0	03	40
FL GA	0	43	01
MD	0	0	43
MS NY	0	1	0
NJ	0	4	0
PA	0	42	0
TX	01	34	02
UT	0	1	0
Totals	02	915	43

During our last three fiscal years, no current or former franchisees have signed confidentiality clauses that restrict them from discussing with you their experiences as a franchisee in our franchise system.

We are not aware of any trademark-specific franchisee organizations associated with the System and no independent franchisee organizations have asked to be included in this disclosure document.

ITEM 21 FINANCIAL STATEMENTS

~~Attached to this disclosure document as Exhibit H are~~ contains the audited consolidated financial statements ~~for~~ of CBC's corporate parent, IFCB, as of December 25, 2011 and of IFCB's predecessor, Il Fornaio, as of December 26, 2010, Docombor 27, 2009, and December 28, 2008 ~~27, 2009~~ as well as unaudited financial statements of IFCB for the period ended March 25, 2012. You have not been provided with CBC's separate financial statements; therefore, you do not have knowledge of how CBC has performed separately from ~~Il Fornaio~~ IFCB. However, ~~Il Fornaio~~ IFCB has agreed absolutely and unconditionally to guarantee to assume the duties and obligations of CBC under the franchise agreements entered into by CBC, should CBC become unable to perform its duties and obligations. A copy of ~~Il Fornaio's~~ IFCB's Guarantee is included with Exhibit H.

~~Duo to the morgor transaction ("Trancoction") doccribod in Item 1 of this disclosure document, Il Fornaio has prepared a proforma unaudited balance sheet dated as of June 10, 2011, the day the Transaction closed. The balance sheet as of June 10, 2011 provides a comparison of Il Fornaio's balance sheet as of May 22, 2011, giving effect to the Transaction, shewing, for example an increase in fixed and intangible assets and increases in debt and paid-in capital. The adjustments also include nominal changes to normal working capital between May 22, 2011 and the closing of the Transaction.~~

ITEM 22 CONTRACTS

The following agreements related to a Franchised Cafe are attached as exhibits to this disclosure document:

Exhibit C	Area Development Agreement
Exhibit D	Franchise Agreement
Exhibit E	General Release
Exhibit F	Confidentiality Agreement

We also require that you fill out our Compliance Questionnaire before signing any Development Agreement or Franchise Agreement. The current form of Compliance Questionnaire is attached as Exhibit I.

ITEM 23 RECEIPTS

The last two pages of this disclosure document are detachable receipt pages. Please sign and date each of them as of the date you received this disclosure document and return one copy to us.

EXHIBIT A

LIST OF STATE ADMINISTRATORS

LIST OF STATE ADMINISTRATORS

CALIFORNIA California Corporations Commissioner Department of Corporations 320 West Fourth Street, Suite 750 Los Angeles, California 90013-2344 (213) 876-7500 Toll Free: (866) 275-2677	NEW YORK Bureau of Investor Protection and Securities New York State Department of Law 120 Broadway, 23rd Floor New York, New York 10271 (212) 416-8211
HAWAII Commissioner of Securities of the State of Hawaii Department of Commerce & Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722	NORTH DAKOTA North Dakota Securities Department 600 Boulevard Avenue, State Capitol Fifth Floor, Dept. 414 Bismarck, North Dakota 58505-0510 (701) 328-4712
ILLINOIS Illinois Office of the Attorney General Franchise Bureau 500 South Second Street Springfield, Illinois 62706 (217) 782-4465	RHODE ISLAND Department of Business Regulation Securities Division Bldg. 69, First Floor John O. Pastore Center 1511 Pontiac Avenue Cranston, Rhode Island 02920 (401) 462-9527
INDIANA Secretary of State Franchise Section 302 West Washington, Room E-111 Indianapolis, Indiana 46204 (317) 232-6681	SOUTH DAKOTA Director <u>Department of Labor and Regulation</u> Division of Securities 445 E. Capitol <u>Avenue</u> Pierre, South Dakota <u>SD</u> 57501 (605) 773-4823
MARYLAND Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2020 (410) 576-6360	VIRGINIA State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9th Floor Richmond, Virginia 23219 (804) 371-9051
MICHIGAN Department of Michigan <u>Attorney General</u> — <u>General's Office</u> Consumer Protection Division <u>Div., Franchise</u> <u>Section</u> <u>525 West Ottawa Street</u> G. Mennen Williams Building, <u>1st Floor</u> 528 W. Ottawa St. <u>P.O. Box 30242</u> Lansing, MI 48933 <u>Lansing, Mi</u> 48909 <u>Michigan 48913</u> (517) 373-7117	WASHINGTON Department of Financial Institutions Securities Division – 3 rd Floor 150 Israel Road, S.W. Tumwater, Washington 98501 (360) 902-8760

MINNESOTA Commissioner of Commerce Department of Commerce 85 7 th Place East, Suite 500 St. Paul, Minnesota 55101 (651) 296-4026	WISCONSIN Office of the Commissioner of Securities 345 West Washington Avenue, Fourth Floor Madison, Wisconsin 53703 (608) 261-9555
OREGON Div. of Finance & Corp. Securities Department of Consumer & Business Services, Room 410 350 Winter Street, NE Salem, OR 97301-3881 (503) 378-4140	UTAH State of Utah, Division of Consumer Protection 160 East Three Hundred South Salt Lake City, Utah 84145-0804 (801) 530-6601

EXHIBIT B

AGENTS FOR SERVICE OF PROCESS

AGENTS FOR SERVICE OF PROCESS

California

California Corporations Commissioner
Department of Corporations
1515 K Street, Suite 200
Sacramento, CA 95814

Corporation Service Company
d/b/a CSC-Lawyers Incorporating
Service
2730 Gateway Oaks Drive, Suite 100
Sacramento, CA 95833

Colorado

Corporation Service Company
1560 Broadway, Suite 2090
Denver, CO 80202

Delaware

Corporation Service Company
2711 Centerville Road, Suite 400
Wilmington, DE 19808

District of Columbia

Corporation Service Company
1090 Vermont Avenue N.W.
Washington, DC 20005

Georgia

Corporation Service Company
40 Technology Pkwy South, #300
Norcross, GA 30092

Hawaii

Commissioner of Securities
Department of Commerce & Consumer
Affairs
Business Registration Division
Securities Compliance Branch
335 Merchant Street, Room 203
Honolulu, HI 96813

Illinois

Illinois Attorney General
500 South Second Street
Springfield, IL 62706

Illinois Corporation Service Company
801 Adlai Stevenson Drive
Springfield, IL 62703

Indiana

Indiana Secretary of State
302 West Washington Street
Indianapolis, IN 46204

Corporation Service Company
251 East Ohio St., Ste. 500
Indianapolis, IN 46204

Maryland

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

CSC-Lawyers Incorporating Service
Company
7 St. Paul Street
Baltimore, MD 21202

Michigan

~~Dept. of Energy, Labor, & Economic~~
~~Growth~~
~~Corporation Division~~
~~P.O. Box 30054~~
~~Lansing, Michigan 48909~~Attorney
General's Office
~~7150 Harris Drive~~
Consumer Protection Div., Franchise
Section
525 West Ottawa Street
G. Mennen Williams Building, 1st Floor
Lansing, Michigan 4800948913
(517) 373-7117

Minnesota

Minnesota Commissioner of Commerce
Minnesota Department of Commerce

85 7th Place East, Suite 500
SL Paul, MN 55101

Corporation Service Company
380 Jackson Street, Suite 418
St. Paul, MN 55101

New York

Secretary of State
New York Department of State
41 State Street
Albany, NY 12231

Corporation Service Company
80 State Street
Albany, NY 12207

North Dakota

North Dakota Securities Commissioner
600 Boulevard Avenue, State Capitol
Fifth Floor
Bismarck, North Dakota 58505-0510
(701) 328-4712

Pennsylvania

Corporation Service Company
~~2704 Commerce~~ 2595 Interstate Drive,
Suite 103
Harrisburg, PA 17110

Texas

Corporation Service Company
d/b/a CSC-Lawyers Incorporation
Service Company
211 E. 7th Street, Suite 620
Austin, TX 78701-3218

Rhode Island

Director of Department of Business
Regulation
Department of Business Regulation
Securities Division
Bldg. 69, First Floor
John O. Pastore Center
1511 Pontiac Avenue
Cranston, Rhode Island 02920
(401) 462-9527

~~Corporation Service Company~~

CBC – Agents for Service of Process

~~222 Jefferson Blvd., Suite 200~~
~~Warwick, RI 03888~~

South Dakota

~~Director, Division of Securities~~
~~Department of Commerce~~ Labor and
Regulation
Division of Securities
445 East E. Capitol Avenue
Pierre, SD 57501
(605) 773-4823

Utah

Corporation Service Company
2180 South 1300 East, Suite 650
Salt Lake City, Utah 84106

Virginia

Clerk
State Corporation Commission
1300 E. Main Street, 1st Floor
Richmond, VA 23219

Corporation Service Company
~~11 South 12th~~ Bank of America Center
1111 East Main Street
POB-1463
16th Floor
Richmond, VA ~~23218~~ 23219

Washington

Director
Securities Division
Department of Financial Institutions
150 Israel Road SW
Tumwater, WA 98501

~~Corporation Service Company~~
~~300 Deschutes Way S.W., Suite 304~~
~~Tumwater, WA 98501~~

Wisconsin

Wisconsin Commissioner of Securities
Department of Financial Institutions
Division of Securities
345 W. Washington Ave., 4th Floor
Madison, WI 53703

EXHIBIT C

AREA DEVELOPMENT AGREEMENT

Developer
Effective Date
Development Area

**CORNER BAKERY CAFE AREA DEVELOPMENT AGREEMENT
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PERSONAL GUARANTY AND ASSUMPTION OF DEVELOPER'S OBLIGATIONS
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 APPENDIX D – FORM OF ADDENDUM TO LEASE

CORNER BAKERY CAFE AREA DEVELOPMENT AGREEMENT

This Area Development Agreement ("Agreement") is made as of this ____ day of _____, 2012 ("Effective Date") between CBC Restaurant Corp. ("CBC," "we" or "us"), a Delaware corporation, and _____ [Entity name in Bold] _____ ("you" or "your"), a(n) _____.

RECITALS

CBC, as the result of the expenditure of time, skill, effort and money, has developed and owns a unique and distinctive system ("System") relating to the establishment and operation of bakery café-style restaurants that operate under the name Corner Bakery Cafe® ("Corner Bakery Cafes").

The distinguishing characteristics of the System include, without limitation: uniform and distinctive exterior and interior design and layout, including specially designed décor and furnishings; special recipes and menu items; procedures and techniques for food and beverage preparation and service; automated management information and control systems for inventory controls, cash controls and sales analysis; technical assistance and training through course instruction and manuals; and advertising and promotional programs. We may change, improve and further develop the System from time to time.

We identify the System by means of the "Corner Bakery Cafe®" name and mark and certain other names, marks, logos, insignias, slogans, emblems, symbols, designs and indicia of origin (collectively, "Marks") that we have designated, or may in the future designate, for use with the System. We and/or our affiliates may modify the Marks used to identify the System, including the principal Marks, from time to time.

We continue to develop and use (and control the use of) the Marks in order to identify to the public the source of services and products marketed under the Marks and the System and represent the System's high standards of quality, appearance and service.

You would like the right, subject to the terms and conditions of this Agreement, to develop franchised Corner Bakery Cafes ("Franchised Cafes") within the limited geographic territory described in attached Appendix A ("Development Area").

You understand and acknowledge the importance of our high and uniform standards of quality, operations and service and the necessity of developing Franchised Cafes in strict conformity with this Agreement and the Corner Bakery Cafe Operations Manual ("Manual").

We are willing to grant to you the right to develop Franchised Cafes in the Development Area, subject to the terms and conditions of this Agreement.

NOW THEREFORE, in consideration of our grant to you of the right to develop Franchised Cafes in the Development Area during the term of this Agreement ("Development Term"), as well as the mutual covenants, agreements and obligations set forth below, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. GRANT OF DEVELOPMENT RIGHTS

A. Grant and Development Area. We hereby grant to you, subject to the terms, conditions, provisions and limitations of this Agreement, the right to develop Franchised Cafes within the Development Area during the Development Term. The Development Term begins on the date that this Agreement is signed by us and terminates on the date that the last Franchised Cafe is required to be opened pursuant to the Development Schedule in attached Appendix B, unless terminated at an earlier date pursuant to Section 12. There is no renewal term for this Agreement. Each Franchised Cafe shall be located in the Development Area at a specific location accepted by us.

B. Development Rights Only. This Agreement is not a license or franchise agreement. It does not give you any right to operate, or license others to operate, Corner Bakery Cafes or to use, or license others to use, the System. For each Franchised Cafe that you develop and open pursuant to the terms of this Agreement, you must sign a Franchise Agreement in accordance with Section 4.K. and operate the Franchised Cafe in accordance with that Agreement.

C. Limited Exclusivity.

(1) Except as reserved in Section 1.C.(2), we will not during the Development Term, operate, or license others to operate, restaurants identified in whole or in part by the Marks in the Development Area, provided that you are not in material un-cured default of this Agreement and any other agreements with us or our affiliates and are current on all monetary obligations to us and our affiliates. The restrictions contained in this Section 1.C.(1) do not apply to Corner Bakery Cafes in operation or under lease, construction or other commitment to open in the Development Area as of the Effective Date of which we have provided you with prior written notice.

(2) The System (including the products sold under the Marks) has been developed, and is designed, to function effectively in a wide variety of retail environments, many of which are not practically available to you. Accordingly, we reserve the rights to: (a) operate, and license others to operate, restaurants identified in whole or in part by the Marks and/or utilizing the System in the Development Area that are located in gas stations or convenience stores, transportation facilities, including airports, train stations, subways and rail and bus stations, military bases and government offices, professional sports facilities, including stadiums and arenas, amusement parks, zoos, convention centers, car and truck rest stops, travel centers, educational facilities, recreational theme parks, hospitals, business or industrial foodservice venues, venues in which foodservice is or may be provided by a master concessionaire or contract foodservice provider, Indian reservations, casinos and any similar captive market location not reasonably available to you; (b) award national, regional or local licenses to third parties to sell products under the Marks in foodservice facilities primarily identified by the third party's trademark; (c) merchandise and distribute products identified by the Marks in the Development Area through any method or channel of distribution other than through the operation of a restaurant or catering services; (d) sell and distribute products identified by the Marks in the Development Area to restaurants other than restaurants identified by the Marks, provided that those restaurants are not licensed to use the Marks in connection with their retail sales; (e) sell products and services through other channels of distribution, including the Internet, wholesale, mail order and catalog; (f) operate, and license others to operate, during the Development Term, restaurants identified in whole or in part by the Marks at any location outside of the Development Area; (g) operate, and license others to operate, after this Agreement terminates or expires, restaurants identified in whole or in part by the Marks at any location, including locations inside the Development Area; (h) operate, and license others to operate, at any location, including locations inside the Development Area, during or after the Development Term, any type of restaurant other than a restaurant identified in whole or in part by the Marks; (i) develop and own other franchise systems for the same or similar products and services using trade names and trademarks other than the Marks; and (j) purchase, be purchased by, merge or combine with, businesses that directly compete with Corner Bakery Cafes.

D. Forms of Agreement. You acknowledge that we intend to enter into agreements with other developers and franchisees that may contain provisions, conditions and obligations that differ from those contained in this Agreement. The existence of different forms of agreement and the fact that we and other developers and franchisees may have different rights and obligations do not affect the duties of the parties to this Agreement to comply with the terms of this Agreement.

2. DEVELOPMENT SCHEDULE

A. Development Obligations. During the Development Term, you must develop, open and continuously operate in the Development Area the number of Franchised Cafes specified in the Development Schedule. For each Franchised Cafe developed pursuant to this Agreement, you must obtain our written acceptance for a site for that Franchised Cafe and open that Franchised Cafe by the applicable date listed in the Development Schedule ("Opening Date"). You acknowledge that strict compliance with the Development

Schedule is essential to this Agreement and that your failure to comply with the Development Schedule shall constitute a material, non-curable breach of this Agreement, permitting us to terminate this Agreement by giving written notice of termination to you without giving you an opportunity to cure. **TIME IS OF THE ESSENCE.**

B. Effect of Sale of Franchised Cafe. Notwithstanding anything to the contrary in this Agreement, if, during the Development Term, you sell (and we approve the sale of) a Franchised Cafe developed pursuant to this Agreement and you are not in default of the Franchise Agreement for that Franchised Cafe, we will continue to count that Corner Bakery Cafe as a Franchised Cafe under the Development Schedule, provided that the restaurant continues to be operated pursuant to a franchise agreement with CBC or our affiliates.

3. FEES

A. Development Fee. Simultaneously with your execution of this Agreement, you shall pay to us a development fee equal to \$10,000 for each Franchised Cafe that you have agreed to develop in the Development Area during the Development Term ("Development Fee"). The total amount of the Development Fee paid by you is set forth in Appendix B. You acknowledge and agree that the Development Fee: (1) is fully earned by us when paid by you; (2) is not refundable in consideration of administrative and other expenses incurred by us and for the development opportunities lost or deferred as a result of the rights granted to you in this Agreement; and (3) is not credited against any other fees to be paid to us.

B. Initial Franchise Fees. In addition to the Development Fee, at least ~~30~~40 days before you open each Franchised Cafe that you develop pursuant to this Agreement, you must sign a Franchise Agreement for the Franchised Cafe and pay to us an initial franchise fee in the amount set forth in Appendix B ("Initial Franchise Fee") and as required by the Franchise Agreement.

4. DEVELOPMENT PROCEDURES

A. Your Responsibility. You assume all cost, liability, expense, and responsibility for locating, obtaining, and developing sites for Franchised Cafes and constructing, equipping and operating Franchised Cafes in accordance with our standards at sites that we have accepted. You should not make any binding commitments to acquire any interest in any site until we have accepted that site in writing.

B. Site Selection Assistance. We may provide the following site selection assistance to you within the Development Area: (1) our site selection criteria and, as you may request, a reasonable amount of consultation with respect thereto; and (2) such on-site evaluation as we may deem advisable as part of our evaluation of your request for acceptance of a site.

C. Site Application

(1) You must submit a site application to us that contains the information that we reasonably require for each proposed site that you reasonably believe conforms to our site selection criteria ("Site Application"). Each Site Application shall include, among other things, a description of the proposed site, a market feasibility study for the proposed site, a letter of intent (or other written confirmation demonstrating your ability to acquire the proposed site) and a summary of how the site meets our site selection criteria. Periodically, we may change our site selection criteria, which may include demographic characteristics, traffic count and patterns, parking, character of the neighborhood, competition from other businesses in the area, the proximity to other businesses (including restaurants operated or franchised by CBC or our affiliates), the nature of other businesses in proximity to the site and other commercial characteristics (including the purchase price, rental obligations and other lease terms for the proposed site) and the size, appearance, other physical characteristics and a site plan of the premises.

(2) You acknowledge that, in order to preserve and enhance the reputation and goodwill of all Corner Bakery Cafes and the goodwill of the Marks, each Corner Bakery Cafe must be properly developed, operated and maintained. Accordingly, you agree that we may refuse to accept a site for a

proposed Franchised Cafe unless you demonstrate sufficient financial capabilities, in our sole judgment, applying standards consistent with criteria we use to establish Corner Bakery Cafes in other comparable market areas, to develop, operate and maintain the proposed Franchised Cafe properly. To this end, you shall furnish to us such financial statements and other information regarding you or your Affiliated Entity and the development and operation of the proposed Franchised Cafe, including, without limitation, investment and financing plans for the proposed Franchised Cafe, as we reasonably may require.

D. Site Acceptance

(1) Within 30 days after our receipt of the completed Site Application (which shall include all information and materials relating to a proposed site that we reasonably request), we will advise you in writing whether we have accepted or refused to accept the proposed site. If we do not respond within that time period, we will be deemed to have refused to accept the proposed site. Our acceptance or refusal to accept a proposed site may be subject to reasonable conditions as determined in our sole discretion.

(2) You agree that our acceptance of a site for any Franchised Cafe and any information communicated to you regarding our site selection criteria for Corner Bakery Cafes does not constitute a warranty or representation of any kind, express or implied, as to the suitability of any site for a Franchised Cafe or for any other purpose. Our acceptance of a site is not a representation or a promise by us that a Franchised Cafe at the site will achieve a certain sales volume or a certain level of profitability. Similarly, our acceptance of one or more sites and our refusal to accept other sites is not a representation or a promise that the accepted site will have a higher sales volume or be more profitable than a site that we did not accept.

(3) You agree that your decision to develop and operate a Franchised Cafe at any site is based solely on your own independent investigation of the suitability of that site for a Franchised Cafe. We assume no liability or responsibility for: (a) evaluation of the soil of any site for hazardous substances; (b) inspection of any structure at any site for asbestos or other toxic or hazardous materials; (c) compliance with the Americans with Disabilities Act ("ADA"); or (d) compliance with any other applicable law. It is your sole responsibility to obtain satisfactory evidence and/or assurances that the proposed sites (and any structures thereon) are free from environmental contamination and in compliance with the requirements of the ADA.

E. Acquisition of the Authorized Site, Leasing

(1) Within 30 days after we accept a site for any Franchised Cafe ("Authorized Site"), you must lease, sublease or purchase the Authorized Site. Before you sign any lease, sublease or purchase agreement, you must deliver a copy to us for our approval. If you propose to lease or sublease the Authorized Site, you shall provide us with a copy of the proposed lease or sublease within 30 days after we accept the Authorized Site. You agree that any lease or sublease for the Authorized Site must: (a) in form and substance, be satisfactory to us; (b) include provisions such as those set forth in our form of Addendum to Lease (the current form of which is attached as Appendix D), as modified from time to time; (c) be for an aggregate term of (at least) 20 years in a combination of initial term and renewals; (d) contain terms and conditions and payments that are commercially reasonable in our opinion; and (e) include any other provisions as we may require from time to time. The lease or sublease shall not contain any covenants or other obligations that would prevent you from performing your obligations under this Agreement or any agreement with us (including the Franchise Agreement for the Authorized Site).

(2) You must deliver to us a copy of the fully signed lease, sublease or purchase contract within five days after its execution. You may not begin construction of a Franchised Cafe at the Authorized Site until you have delivered to us a copy of the fully signed lease, sublease or purchase agreement. You may not amend or modify the lease without our prior written approval and you must provide us with any fully signed lease addenda within five days after execution.

(3) Our approval of the lease, sublease or purchase contract does not constitute a warranty or representation of any kind, express or implied, as to its fairness or suitability or as to your ability

to comply with its terms, and we do not assume any liability or responsibility to you or to any third parties due to such approval.

F. Permitting/Licensing. You shall promptly begin the permitting, licensing and approval process to ensure that construction of each Franchised Cafe commences within 60 days after the date the lease or sublease is fully executed or the purchase of the Authorized Site is consummated. If permitting and licensing is anticipated to take longer than 60 days, you shall advise us in writing of the date on which you anticipate obtaining such permits and licenses and the reasons for the extended time period.

G. Plans and Specifications.

(1) We will provide you with a space plan layout ("Space Plan") and exterior signage plan ("Signage Plan") for the Franchised Cafes that you develop. ~~We will prepare the Space Plan and Signage Plan for your first three Franchised Cafes that you develop. During the at no cost to you, however, you must pay our then-current fee for preparation of your Space Plans and Signage Plans, we will provide you and your respective architect/designer with design training and criteria so that you will be prepared to complete the Space Plan and Signage Plan for all units that you develop after your third Franchised Cafe. We will prepare the Space Plan and Signage Plan for additional Franchised Cafes developed by that you for a fee develop as periodically specified in the Manual. You must submit all Space Plans and Signage Plans prepared by you to us electronically in Auto-Cad V. 2004 software (or later) for approval. We reserve the right to make any changes to the Space Plans or Signage Plans as submitted. We shall provide approval, or approval with changes, within 10 days after we receive the Space Plans and Signage Plans.~~

(2) Upon completion and approval of the Space Plan and Signage Plans for each Franchised Cafe, you shall be responsible for developing construction plans and specifications and design specifications ("Plans and Specifications") by a licensed architect and engineer for building permit submittal. You shall submit to us your final Plans and Specifications for our acceptance before commencing construction of a Franchised Cafe. A licensed architect must prepare all final Plans and Specifications. All prototype and modified Plans and Specifications for each Franchised Cafe remain our sole and exclusive property, and you may claim no interest in those modified plans and specifications.

(3) You acknowledge that the design and materials used in the construction of Corner Bakery Cafes is important to us, and you agree to adhere to our design and construction specifications and to use the materials and suppliers we require. You are solely responsible for developing each Franchised Cafe, for all expenses associated with it and for compliance with the requirements of any applicable federal, state or local law, code or regulation, including those concerning the ADA or similar rules governing public accommodations for persons with disabilities. All development and any signage must be in accordance with the Space Plans, Signage Plans and Plans and Specifications we have approved and must comply with all applicable laws, ordinances and local laws, codes, and regulations. Our review and acceptance of your Plans and Specifications is not designed to assess compliance with federal, state or local laws, codes, and regulations, including the ADA, as compliance with such laws is your sole responsibility. At our request, you must submit all revised or "as built" Plans and Specifications.

H. Construction of the Franchised Cafes.

(1) We will provide a construction orientation program for you and your general contractor for the first Franchised Cafe that you develop. The orientation shall be conducted in a manner and location deemed appropriate by us and shall review the construction standards and procedures commonly employed to construct a Corner Bakery Cafe. You may request additional construction orientation at a fee as periodically specified in the Manual.

(2) Unless you and we mutually agree otherwise, you must begin construction of each Franchised Cafe by the later of: (a) 60 days after you have leased, subleased or purchased the Authorized Site; or (b) upon receipt of all necessary permits and licenses, provided such permits were promptly requested. We reserve the right to require that you obtain our acceptance of your choice of general contractor. You must procure all insurance in accordance with Section 5 before you commence construction

of each Franchised Cafe. You must obtain lien waivers from your contractor and all subcontractors who furnish any materials or services in the construction of each Franchised Cafe.

(3) You must provide us with progress reports during the course of construction in a format and at those times that are acceptable to us. During the course of construction, you shall (and shall cause your architect, engineer, contractors, and subcontractors to) cooperate fully with us and our designees for the purpose of permitting us and our designees to inspect the Franchised Cafes in order to determine whether construction is proceeding according to our standards. Without limiting the generality of the foregoing, you and your architect, engineer, contractors and subcontractors shall: (a) supply us or our designees with samples of construction materials, test borings, corings, due diligence environmental studies, supplies, equipment and other material and reports, if any such tests, studies or reports indicate there may be material problems or as we or our designees may request; and (b) afford our representatives and our designees access to each Franchised Cafe and to the construction work in order to permit us and our designees to carry out their inspections. Such inspections shall be at our expense, except for inspections made upon your request, which shall be at your expense.

I. Acquisition of Necessary Furnishings, Fixtures, Equipment and Signage.

(1) You agree to use in the development and operation of the Franchised Cafes only the fixtures, furnishings, equipment signage, emblems, lettering, logos and display materials ("FFE&S") that we have approved for Corner Bakery Cafes in writing from time to time as meeting our specifications and standards for quality, design, appearance, function and performance.

(2) You agree to purchase or lease only such types, brands and models of FFE&S and supplies that we approve for Corner Bakery Cafes as meeting our standards and specifications, including standards and specifications for quality, design, warranties, appearance, function and performance. You may purchase or lease approved types, brands or models of FFE&S and supplies only from suppliers designated by us. From time to time, we may modify the list of approved types, brands, models and/or suppliers, and you may not, after receipt of notice of such modification, reorder any type, brand or model from any supplier that is no longer approved. If you propose to purchase any FFE&S or supplies of a type, brand or model, or propose to purchase from a supplier that we have not previously approved, you must notify us and submit to us such information as we may request and comply with our procedures for approving alternate suppliers.

J. Limitation of Liability. Notwithstanding our right to ~~approve~~ develop the Space Plan, and Signage Plan and for each Franchised Cafe, approve the Plans and Specifications for each Franchised Cafe, and our right to inspect the construction work at each Franchised Cafe, we and our designees shall have no liability or obligation with respect to the Authorized Sites, the design or construction of the Franchised Cafes or the FFE&S to be acquired; our rights being exercised solely for the purpose of ensuring compliance with the terms and conditions of this Agreement. Our inspections shall not be construed as any express or implied representation or warranty that the Franchised Cafes comply with any applicable laws, codes or regulations (including the ADA or any other federal, state, or local law or ordinance regulating standards for the access to, use of, or modifications of, buildings for any persons whose disabilities are protected by law) or that the construction of each Franchised Cafe is sound or free from defects.

K. Final Inspection, Execution of Franchise Agreement and Opening Date.

(1) You must complete construction of each Franchised Cafe within ~~120~~150 days after the start of construction, unless we agree otherwise. The requirement to complete construction of each Franchised Cafe includes obtaining all required construction and occupancy licenses, permits and approvals, developing the Authorized Site (including all outdoor features, patios, and landscaping of the Authorized Site), purchasing all required catering equipment, installing all required FFE&S, and doing all other things as may be required pursuant to this Agreement or by practical necessity to have the Franchised Cafe ready to open for business.

(2) You shall notify us in writing at least 40 days prior to the date you expect construction and/or renovation to be completed and a certificate of occupancy to be issued for each Franchised Cafe ("Occupancy Notice"). After our receipt of your Occupancy Notice, we reserve the right to conduct a final inspection of each Franchised Cafe to determine if you have complied with this Agreement in connection with the development of the Franchised Cafe including, without limitation, the final Space Plan, Signage Plan and Plans and Specifications. We shall not be liable for delays or loss occasioned by our inability to complete our investigation and to make a determination within this 40-day period. If requested by us, you shall submit a copy of the certificate of occupancy to us.

(3) You will sign the Franchise Agreement for your first Franchised Cafe simultaneously with your execution of this Agreement. For each additional Franchised Cafe that you develop, after we receive your Occupancy Notice, we will prepare and forward to you our then-current standard form of Franchise Agreement then in general use. At least ~~30~~40 days prior to the date you open each Franchised Cafe, you must sign and return the Franchise Agreement to us along with the Initial Franchise Fee. We will sign the Franchise Agreement and promptly return a fully-executed original of the Franchise Agreement to you before you open each Franchised Cafe.

(4) You may not open any Franchised Cafe for at least 24 days after the date construction is completed so that your employees may be trained in the management and operation of the Franchised Cafe. You must open within 45 days after the date construction is completed and all necessary approvals have been obtained. Time is of the essence in the construction and opening of the Franchised Cafes, and failure to comply with all deadlines relating thereto constitutes a material breach or default of this Agreement. Any extensions of time are subject to our approval, which we may withhold at our discretion. You must provide a written report to us detailing all construction and development costs and expenses for each Franchised Cafe within 30 days after the opening of the Franchised Cafe. You acknowledge and agree that we will share these costs and expenses with other existing and prospective franchisees and developers of Corner Bakery Cafes.

(5) At your request, the Franchise Agreement for any Franchised Cafe in the Development Area may be signed by a corporation, a limited liability company or general or limited partnership formed by you to develop and operate the Franchised Cafe ("Affiliated Entity"), provided all of the following conditions are met: (1) you or your Continuity Group (defined in Section 7.F.) owns at least 66% of the voting securities of a corporate Affiliated Entity, at least 66% of the membership interests in a limited liability company Affiliated Entity or all of the general partnership interests of a partnership Affiliated Entity; (2) the Affiliated Entity conducts no business other than the operation of one or more of the Franchised Cafes; (3) you, your Continuity Group and all holders of a legal or beneficial interest in you of 10% or more ("Owner/Principal(s)") sign a personal guaranty and agree to assume full and unconditional liability for, and agree to perform, all obligations, covenants and agreements contained in the Franchise Agreement; and (4) all owners of voting securities of a corporate Affiliated Entity, membership interests of a limited liability company Affiliated Entity or partnership interests of a partnership Affiliated Entity possess a good moral character, as determined by us in our sole discretion, and you provide to us all reasonably requested information to permit us to make such a determination.

L. Opening of each Franchised Cafe. You shall not open any Franchised Cafe for business without our express written authorization, which we will not grant unless the following conditions have been satisfied with respect to the particular Franchised Cafe:

(1) You are not in material default under this Agreement or any other agreements with us; you are not in default beyond the applicable cure period under any real estate lease, equipment lease or financing instrument relating to the Franchised Cafe (other than defaults that are immaterial in that they do not adversely affect your ability to open or operate the Franchised Cafe); you are not in default beyond the applicable cure period with any vendor or supplier to the Franchised Cafe (other than defaults that are immaterial in that they do not adversely affect your ability to open or operate the Franchised Cafe); and for the previous six months, you have not been in material default beyond the applicable cure period under any agreement with us;

(2) We have determined that the Franchised Cafe has been constructed and/or renovated and equipped substantially in accordance with the requirements of this Agreement including, without limitation, the Space Plan, the Signage Plan, and the Plans and Specifications;

(3) You have designated an individual whom we have approved to serve as your Operating Partner for the Franchised Cafe;

(4) You have hired and trained a staff in accordance with the requirements of the Franchise Agreement for the Franchised Cafe;

(5) You, your Operating Partner, the General Manager and Assistant Managers of the Franchised Cafe have completed our initial training program as described in the Franchise Agreement for the Franchised Cafe;

(6) You have paid the Initial Franchise Fee for the Franchised Cafe and any other amounts then due to us;

(7) You have signed the Franchise Agreement and all other agreements for the Franchised Cafe as required by us;

(8) You have obtained a certificate of occupancy and any other required health, safety or fire department certificates; and

(9) You have provided to us copies of certificates for all insurance policies required by Section 5 or such other evidence of insurance coverage and payment of premiums as we reasonably may request.

M. Legal Compliance. You must comply with the requirements of all applicable federal, state, and local laws, rules, and regulations. You must timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the business contemplated under this Agreement. This obligation is in addition to the obligation to comply with all laws and obtain all licenses and permits that are imposed on the franchisee under the Franchise Agreement. To the extent that the requirements of these laws are in conflict with the terms of this Agreement or our other instructions, you must: (1) comply with these laws; and (2) immediately provide written notice to us describing the nature of any such conflict.

5. INSURANCE

A. Procurement of Insurance. You are responsible for all loss or damage arising from or related to your development and operation of each Franchised Cafe and all demands or claims with respect to any loss, liability, personal injury, death, property damage or expense occurring upon the premises of, or arising from the development and/or operation of, each Franchised Cafe. Within 15 days before you take possession of any Authorized Site, you must procure and maintain in full force and effect that insurance that you determine is necessary or appropriate for liabilities caused by or occurring in connection with the development or operation of a Franchised Cafe at that Authorized Site, which shall include, at a minimum, insurance policies of the kinds, and in the amounts, required by Section 5.B. We, and any entity with an insurable interest that we designate, shall be an additional insured in such policies to the extent each has an insurable interest.

B. Minimum Insurance Requirements. All insurance policies shall be written by an insurance company or companies satisfactory to us, in compliance with the standards, specifications, coverages and limits set forth in the Manual or otherwise provided to you in writing. We may reasonably increase the minimum coverage required and/or require different or additional kinds of insurance to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances. We will provide to you written notice of such modifications, and upon receipt, you shall take prompt action to secure the additional coverage or higher policy limits. These policies shall include, at a minimum, the following:

(1) Commercial General Liability Insurance, including broad form contractual liability, broad-form property damage, personal injury, completed operations, products liability, and fire damage coverage, in the amount of \$1,000,000 per occurrence for bodily injury and property damage and \$2,000,000 general aggregate;

(2) "All Risk" Property Insurance, including fire and extended coverage insurance (including vandalism and malicious mischief insurance, earthquake insurance and flood insurance where applicable) for the Franchised Cafe in an amount not less than the full replacement value thereof;

(3) Worker's Compensation Insurance and such other insurance as may be required by statute or rule of the state or locality in which the Franchised Cafe is located. This coverage shall also be in effect for all of your employees who participate in any of our training programs and shall include Employer's Liability Insurance in the amount of \$100,000 per person, \$500,000 in the aggregate and \$100,000 for occupational disease;

(4) Business Interruption and Extra Expense Insurance, including rental payment continuation for a minimum of 12 months, loss of profits and other extra expenses experienced during the recovery from property loss;

(5) Plate Glass Insurance for replacement of glass from breakage;

~~(6) Employer's Liability Insurance in the amount of \$1,000,000 per person, \$5,000,000 in the aggregate and \$1,000,000 for occupational disease;~~

~~(7)~~(6) Food Borne Illness and Trade Name Restoration Policy in the amount of \$250,000;

~~(8)~~(7) Builder's All Risk Insurance in connection with any construction, renovation, refurbishment or remodeling of the Franchised Cafe, and any new construction, or substantial renovation, refurbishment or remodeling of the Franchised Cafe and performance and completion bonds in forms and amounts, and written by a carrier or carriers, reasonably satisfactory to us. You must also obtain a certificate of liability insurance naming you and CBC from any general contractor who performs work at the Franchised Cafe;

~~(9)~~(8) Business Auto Liability Insurance including coverage for all owned, non-owned and hired autos with a limit of liability of not less than \$1,000,000 per occurrence (combined single limit for bodily injury and property damage); and

~~(10)~~(9) Excess "Umbrella" Liability Insurance providing liability insurance in excess of the coverage limits in clauses (1), (6) and (9), on a coverage form at least as broad as those policies, with a limit of not less than \$2,000,000 per occurrence and \$2,000,000 Annual Aggregate.

C. Policy Requirements. The following general requirements shall apply to each insurance policy that you are required to maintain under this Agreement:

(1) Each insurance policy shall be specifically endorsed to provide that the coverages shall be primary and that any insurance carried by any additional insured shall be excess and non-contributory.

(2) No insurance policy shall contain a provision that in any way limits or reduces coverage for you in the event of a claim by CBC or our affiliates.

(3) Each insurance policy shall extend to, and provide indemnity for, all of your obligations and liabilities to third parties and all other items for which you are required to indemnify us under this Agreement.

(4) Each insurance policy shall be written by an insurance company that has received and maintains at least an "A-" rating by the latest edition of Best's Insurance Rating Service.

(5) No insurance policy shall provide for a deductible amount that exceeds \$5,000, unless otherwise approved in writing by us, and your co-insurance under any insurance policy shall be 80% or greater.

D. **Evidence of Insurance.** No later than 30 days after you procure insurance coverage with respect to a Franchised Cafe, and on each insurance policy renewal date thereafter, you must submit to us evidence of satisfactory insurance and proof of payment. ~~The ovidonco of insuranco shall include a statoment by tho insurer that tho policy or polioios will not bo cancolod or matoriolly aitorod without at least 30 days' prior written notico to us.~~ Upon our request, you must provide to us copies of any policies and policy amendments and riders.

E. **No Representations.** You acknowledge that no requirement for insurance contained in this Agreement constitutes advice or a representation by us that only such policies, in such amounts, are necessary or adequate to protect you from losses in connection with your business under this Agreement. Maintenance of this insurance, and your performance of your obligations under this Section 5, shall not relieve you of liability under the indemnification provisions of this Agreement.

F. **Our Right to Procure Insurance.** If you fail to obtain or maintain at least the insurance required by this Section 5, as revised from time to time pursuant to the Manual or otherwise in writing, we may obtain such insurance and charge its cost to you. Upon your receipt of an invoice from us, you must immediately reimburse us for all out-of-pocket costs incurred by us in obtaining such insurance on your behalf.

6. TRAINING AND GUIDANCE

A. **Development Training.** You must complete, to our satisfaction, any development training we specify. You also may attend any optional development training offered by us from time to time, subject to payment of a tuition fee as established by us from time to time. You will be required to pay all travel, living and other expenses that you or your employees incur while attending development training and optional development training.

B. **Pre-Opening Assistance.** We shall provide consultation and advice to you as we deem appropriate with regard to development and operation of each Franchised Cafe, building layout, furnishings, fixtures and equipment plans and specifications, employee recruiting, selection and training, purchasing and inventory control and such other matters as we deem appropriate.

C. **Delegation.** We have the right, from time to time, to delegate the performance of any portion or all of our obligations and duties under this Agreement to our designees, whether affiliates or agents of ours or independent contractors with whom we have contracted to provide this service.

7. YOUR ORGANIZATION AND MANAGEMENT

A. **Organization Documents.** You must be a legal entity such as a business corporation, partnership, limited liability company or other legal entity formed and used for the purpose of developing and holding franchises to operate Franchised Cafes. You represent, warrant and agree that: (1) you are duly organized and validly existing under the laws of the state of your organization; (2) you are duly qualified to transact business in the states included in the Development Area; (3) your governing documents permit execution of this Agreement and the development and operation of the Franchised Cafes; and (4) unless waived in writing by us, your governing documents shall at all times provide that your activities are restricted to those necessary solely for the development, ownership and operation of the Franchised Cafes in accordance with this Agreement and any other agreements entered into with CBC or our affiliates.

B. Governing Documents. Upon request by us, you shall promptly deliver to us, as applicable, true and complete copies of the articles or certificate of incorporation, partnership agreement, bylaws, subscription agreements, buy-sell agreements, voting trust agreements and all other documents relating to your ownership, organization, capitalization, management and control and all amendments thereto. When any of these governing documents are modified or changed, you promptly shall provide copies to us. You may not change the form of your entity unless we mutually agree in writing that such a change is warranted.

C. Ownership Interests

(1) If you are a corporation, limited liability company or partnership, all interests in you are owned as set forth in attached Appendix C. In addition, if you are a corporation, you shall maintain a current list of all owners of record and all beneficial owners of any class of voting securities of the corporation (and the number of shares owned by each). If you are a limited liability company, you shall maintain a current list of all members (and the percentage membership interest of each member). If you are a partnership, you shall maintain a current list of all owners of an interest in the partnership (and the percentage ownership of each owner). You shall comply with the requirements of Section 9 prior to any change in ownership interests and shall sign addenda to Appendix C as changes occur in order to ensure the information contained in Appendix C is true, accurate and complete at all times.

(2) The requirements of this Section 7.C. shall apply only to your Continuity Group (defined in Section 7.F.) if, as of the date of the first franchise-related agreement between you and us and/or one of our affiliates, you were a publicly-held entity (i.e., an entity that has a class of securities traded on a recognized securities exchange or quoted on the inter-dealer quotation sheets known as the "pink sheets"). If you become a publicly-held entity after that date, you shall thereafter be required to sign addenda to Appendix C only with respect to changes in ownership interests of the Continuity Group.

D. Restrictive Legend. If you are a corporation, you shall maintain stop-transfer instructions against the transfer on the records of any voting securities, and each stock certificate of the corporation shall have conspicuously endorsed upon its face the following statement: "Any assignment or transfer of this stock is subject to the restrictions imposed on assignment by the Corner Bakery Cafe Area Development Agreement to which the corporation is a party." If you are a publicly-held corporation, these requirements shall apply only to the stock owned by your Continuity Group. If you are a limited liability company, each membership or management certificate shall have conspicuously endorsed upon its face the following statement: "Any assignment or transfer of an interest in this limited liability company is subject to the restrictions imposed on assignment by the Corner Bakery Cafe Area Development Agreement to which the limited liability company is a party." If you are a partnership, your written partnership agreement shall provide that ownership of an interest in the partnership is held, and that further assignment or transfer thereof, is subject to all restrictions imposed on assignment by this Agreement.

E. Personal Guaranty

(1) All members of the Continuity Group shall jointly and severally personally guarantee your payment and performance under this Agreement and personally bind themselves to the terms of this Agreement pursuant to the attached Personal Guaranty. Unless you are a publicly-held entity, all of your officers, directors, limited liability company managers, and Owners/Principals also shall jointly and severally guarantee your payment and performance under this Agreement and bind themselves to the terms of this Agreement pursuant to the attached Personal Guaranty. Notwithstanding the foregoing, we reserve the right, in our sole discretion, to waive the requirement that some or all of the previously described individuals sign the attached Personal Guaranty. We reserve the right to require any guarantor to provide personal financial statements to us from time to time.

(2) With respect to your Owners/Principals, you acknowledge that, unless otherwise agreed to in writing by us, it is our intent to have individuals (and not corporations, limited liability companies or other entities) sign the Personal Guaranty. Accordingly, if any Owner/Principal is not an individual, we shall have the right to require individuals who have only an indirect ownership interest in you to sign the

Personal Guaranty. (By way of example, if an OwnerPrincipal is a corporation, we have the right to require individuals who have an ownership interest in that corporation to sign the Personal Guaranty.)

(3) If you, any OwnerPrincipal, guarantor or any parent, subsidiary or affiliate of yours holds any interest in other restaurants that are franchised by CBC or our affiliates, the party who owns that interest shall sign, concurrently with this Agreement, a form of cross-guarantee to CBC and our affiliates for the payment of all obligations for such restaurants, unless waived in writing by us in our sole discretion. For purposes of this Agreement, an affiliate of yours is any company controlled, directly or indirectly, by you or your parent or subsidiary.

F. Continuity Group. If you are a corporation, limited liability company or partnership, Appendix C lists those persons whom you and we have designated as your "Continuity Group." In the event of any change in the Continuity Group or in the ownership interests of any member of the Continuity Group, you shall sign addenda to Appendix C to reflect the change. If you are a corporation, the Continuity Group shall at all times own at least 66% of your voting securities; if you are a limited liability company, the Continuity Group shall at all times own at least 66% of your membership interests; and if you are a partnership, the Continuity Group shall at all times have at least a 66% interest in the operating profits and losses and at least a 66% ownership interest in you.

8. TRANSFERS BY US

We shall have the absolute, unrestricted right, exercisable at any time, to transfer and assign all or any part of our rights and obligations under this Agreement to any person or legal entity without your consent.

9. TRANSFERS BY YOU

A. Our Prior Written Consent Required. You understand and acknowledge that the rights and duties set forth in this Agreement are personal to you and that we have entered into this Agreement in reliance on your and your Owners'Principals' business skill, financial capacity, personal character, experience and demonstrated or purported ability to develop and operate high quality foodservice operations. Accordingly, neither you, your Owners'Principals, nor any immediate or remote successor to any part of your interest in this Agreement, shall sell, assign, transfer, convey, give away, pledge, mortgage, or otherwise encumber any interest in you, this Agreement, or all or substantially all of the assets pertaining to your operations under this Agreement (collectively "Transfer") without obtaining our prior written consent. Notwithstanding the foregoing, you may grant a security interest in, or otherwise encumber certain assets of a Franchised Cafe, excluding this Agreement or any Franchise Agreement, in connection with obtaining financing for the development and/or operation of the Franchised Cafe or equipment leasing, if such financing satisfies our requirements, which may include, without limitation, execution of agreements by CBC, you and your owners and your secured creditor, in a form satisfactory to us, acknowledging such creditor's obligations to be bound by the terms of this Section 9. Except as otherwise provided in this Agreement, any purported Transfer, by operation of law or otherwise, not having our prior written consent shall be null and void and shall constitute a material breach of this Agreement, for which we may terminate this Agreement without providing you an opportunity to cure the breach. We may withhold our consent to any Transfer, without consideration of the factors listed in Section 9.B., if you do not propose to Transfer to the proposed transferee the same interest in all agreements (including any Franchise Agreements) that relate to your operations in the Development Area.

B. Transfer Considerations. You shall advise us in writing of any proposed Transfer and submit (or cause the proposed transferee to submit) a franchise application for the proposed transferee, a copy of all contracts and all other agreements or proposals, and all other information requested by us relating to the proposed Transfer. If we do not exercise our right of first refusal as described in Section 9.J., the decision as to whether or not to consent to a proposed Transfer shall be made by us in our sole discretion and shall include numerous factors deemed relevant by us. These factors may include, but will not be limited to, the following:

(1) You and your ~~Owners~~Principals and affiliates must be in compliance with the provisions of this Agreement and all other agreements with us and our affiliates.

(2) All of your accrued monetary obligations to us and our affiliates (whether arising under this Agreement, any Franchise Agreement or otherwise) and all other outstanding obligations related to the Franchised Cafes (including, but not limited to, bills from suppliers, taxes, judgments and any required governmental reports, returns, affidavits or bonds) have been satisfied or, in our reasonable judgment, adequately provided for. We may require you to place a reasonable sum of money in escrow to ensure that all of these obligations are satisfied.

(3) The proposed transferee must be an entity, and its owners must provide to us on a timely basis all information that we request. The proposed transferee must meet our then-current criteria for new developers and be approved by us, and the proposed transferee's owners must be individuals who are of good character and reputation and who have sufficient business experience, aptitude and financial resources to meet your development obligations under this Agreement and your obligations under the other agreements relating to the Development Area that are proposed to be transferred.

(4) The proposed transferee and any other personnel whom we designate must complete any training program we specify and pay all fees in connection with such training.

(5) You and all guarantors of your obligations must execute a general release and a covenant not to sue, in a form satisfactory to us, of any and all claims against us and our affiliates and our respective past and present officers, directors, shareholders, agents and employees, in their corporate and individual capacities, including, without limitation, claims arising under federal, state and local laws, rules and ordinances, and claims arising out of, or relating to, this Agreement, any other agreements between you and us or our affiliates and all other Franchised Cafes that you operate.

(6) The debt service shall not be so high, in our reasonable judgment, as to jeopardize the ability of the proposed transferee to develop, maintain, operate and promote the Franchised Cafes and meet financial obligations to us, third party suppliers and creditors. Our decision with respect to a proposed Transfer shall not create any liability on our part: (a) to the proposed transferee, if we consent to the Transfer and the proposed transferee experiences financial difficulties; or (b) to you or the proposed transferee, if we disapprove the Transfer pursuant to this Section 9. We, without any liability to you or the proposed transferee, have the right, in our sole discretion, to communicate with, and counsel, you and the proposed transferee regarding any aspect of the proposed Transfer.

(7) If you (or any of your ~~Owners~~Principals or affiliates, if applicable) finance any part of the sale price of the transferred interest, you and/or your ~~Owners~~Principals or affiliates must agree that all obligations of the proposed transferee to you (and/or your ~~Owners~~Principals or affiliates, as applicable) and any security interests reserved by you, (and/or your ~~Owners~~Principals or affiliates, as applicable) in the assets transferred, will be subordinate to the proposed transferee's obligations to pay all amounts due to us and our affiliates and to comply otherwise with this Agreement and any other agreements relating to the Development Area that are signed by us and the proposed transferee.

(8) You and your ~~Owners~~Principals must sign a non-competition covenant, in form and substance satisfactory to us, in favor of us and the proposed transferee agreeing that, for a period of two years, starting on the effective date of the Transfer, you and your ~~Owners~~Principals will not directly or indirectly, such as through members of their immediate families (including a spouse, parent, sibling or adult child, whether natural or adopted), own any legal or beneficial interest in, or render services or give advice to any Competitive Business as defined in Section 11.C.(2)(c) that is located within a 10-mile radius of any Corner Bakery Cafe or within any area that is within a Development Area or Protected Area, as those terms are defined in any Corner Bakery Cafe Area Development Agreement or Franchise Agreement; provided, however that such restriction will not apply to ownership of less than a 10% legal or beneficial ownership in the outstanding equity securities of any publicly held corporation by you or your ~~Owners~~Principals.

(9) You and your OwnersPrincipals must sign such other documents and do such other things as we may reasonably require to protect our rights under this Agreement.

C. Transfer Procedures. If we consent to a proposed Transfer, prior to the Transfer becoming effective:

(1) the transferee and its owners must enter into an assignment agreement and any amendments to this Agreement that we require and agree to be bound by all of the provisions of this Agreement for the remainder of the Development Term or, at our option, sign our then-current standard form of Area Development Agreement for a development term that expires on the last day of the Development Term;

(2) the transferee's owners must sign a personal guaranty of the transferee's obligations; and

(3) you or the transferee must pay us a Transfer fee equal to \$7,500 for each Franchised Cafe that remains to be developed under the Development Schedule, plus our costs associated, including our outside counsel costs, in connection with evaluating the any such Transfer; and,

~~(4) your Owners shall, at our request, sign a written guaranty pursuant to which your Owners shall remain personally liable for all obligations to us incurred before the effective date of the Transfer and for a period of one year following the effective date of the Transfer.~~

D. Effect of Our Consent. Our consent to a Transfer does not constitute: (1) a representation as to the fairness of the terms of any agreement or arrangement between you or your OwnersPrincipals and the transferee or the prospects of the transferee's success in developing Franchised Cafes; or (2) a release of you and your OwnersPrincipals, a waiver of any claims against you or your OwnersPrincipals or a waiver of our right to demand the transferee's compliance with this Agreement. Our consent to any Transfer shall apply only to the specific Transfer being proposed and shall not constitute consent to, or have any bearing on, any other proposed Transfer. Our consent to a Transfer will not create any liability on our part to the transferee if the transferee experiences financial difficulties, and our refusal to consent to a Transfer will not create any liability on our part to you, your OwnersPrincipals or the transferee if our refusal is pursuant to this Section 9. We, without incurring any liability to you or the transferee, have the right, in our sole discretion, to communicate with, and counsel, you (and your OwnersPrincipals), the transferee (and its owners) and either party's representatives regarding any proposed Transfer.

E. Permitted Transfers. Notwithstanding the provisions of Sections 9.A. and 9.B., we agree that certain Transfers shall be permitted without our prior written approval and without the payment of a Transfer fee, provided all of the following conditions are satisfied:

(1) The Transfer is a transfer of:

(a) a minority percentage of ownership interests in you if, after the Transfer, the Continuity Group owns at least 66% of your voting securities if you are a corporation; the Continuity Group owns at least 66% of the membership interests in you if you are a limited liability company; or the Continuity Group owns at least a 66% interest in your operating profits and losses as well as at least a 66% ownership interest in you if you are a partnership.

(b) ownership interests in you following the death or permanent disability of any of your OwnersPrincipals, provided that the Transfer is to the parent, sibling, spouse or adult children of that person or to a member of the Continuity Group. Such Transfer shall be completed within a reasonable time, not to exceed six months from the date of death or permanent disability. Failure to complete the Transfer within this period of time will constitute a breach of this Agreement. A person shall be deemed to have a "permanent disability" if his personal, active participation in the development of the Franchised Cafes is for any reason curtailed for a continuous period of six months.

(2) You provide to us written notice of your intent to undertake the Transfer at least 30 days prior to the effective date of the Transfer, together with any documents that we may request demonstrating that the Transfer meets the requirements of this Section 9.E.

(3) At the time of your notice to us, you shall not be in material default of this Agreement or any other agreements between you and CBC or our affiliates beyond any applicable cure period.

(4) Our right of first refusal described in section 9.I. shall not apply to Permitted Transfers under this Section 9.E.

F. Transfers for Convenience of Ownership. Neither our right of first refusal described in Section 9.J. nor our right to collect a Transfer fee as provided by Section 9.C.(3) shall apply to any Transfer of this Agreement to a corporation (or limited liability company) formed for the convenience of ownership. Our consent to the Transfer will be conditioned on the following: (1) the corporation (or limited liability company) must be newly organized; (2) prior to the Transfer, we must receive a copy of the documents specified in Section 7.B., and the transferee shall comply with the remaining provisions of Section 7; and (3) each owner shall have the same proportionate ownership interest in the corporation (or the limited liability company) as prior to the Transfer.

~~**G. Grant of Security Interest.** You shall not grant any security interest in your business, any Franchised Cafe, any Authorized Site or substantially all of the assets used in the operation or development of the Franchised Cafes without our prior written consent, which will not be unreasonably withheld. Our consent may be conditioned, in our sole discretion, on the written agreement by the secured party that, in the event of a default by you under any agreement related to the security interest, we shall have the right and option (but not the obligation) to purchase the rights of the secured party upon payment of all sums then due to the secured party.~~

H.G. Offerings by You. Securities or partnership interests in you may be sold, by private placement or public offering, only with our prior written consent (whether or not our consent is required under any other provision of this Agreement), which consent shall not be unreasonably withheld. In addition to the requirements of Section 9.B., prior to the time that any public offering or private placement of securities or partnership interests in you is made available to potential investors, you, at your expense, shall deliver to us a copy of the offering documents. You, at your expense, also shall deliver to us an opinion of your legal counsel and an opinion of one other legal counsel selected by us (both of which shall be addressed to us and in a form acceptable to us) that the offering documents properly use the Marks and accurately describe your relationship with us and/or our affiliates. The indemnification provisions of Section 15 also shall include any losses or expenses incurred by us and/or our affiliates in connection with any statements made by or on behalf of you in any public offering or private placement of your securities.

I.H. Changes in Ownership of Voting Securities. If you were a publicly-held entity as of the Effective Date, Section 9.B. shall be applicable to Transfers of ownership interests in you only if the proposed Transfer would result in: (1) 50% or more of your voting securities being held by different shareholders than as of the Effective Date; (2) any change in ownership of your voting securities whereby any existing shareholder acquires an additional 10% or more of your voting securities; or (3) any change in the membership of the Continuity Group (unless such change is a permitted Transfer pursuant to Section 9.E.).

J.I. Our Right of First Refusal

(1) If you or any of your ~~Owners~~Principals desire to undertake a Transfer for legal consideration, you or such ~~Owner~~Principal must obtain a bona fide, signed written offer from a responsible and fully disclosed purchaser and must deliver immediately to us a complete and accurate copy of such offer, including price and payment terms. If the offeror proposes to buy any other property or rights from you or any of your ~~Owners~~Principals or affiliates (other than rights under this Agreement or any Franchise Agreement) as part of the bona fide offer, the proposal for such property or rights must be set forth in a

separate, contemporaneous offer that is fully disclosed to us. In addition, upon our request, you must also provide to us copies of all materials and information provided to the potential purchaser.

(2) We have the right, exercisable by notice delivered to you or your Owners Principals within 30 days after our receipt of a complete and accurate copy of such offer, to purchase such interest for the price and on the terms and conditions contained in such offer, provided that: (a) we may substitute cash for any form of payment proposed in such offer; (b) our credit shall be deemed equal to the credit of any proposed purchaser; (c) we shall not be obligated to pay any finder's or broker's fees; and (d) we will have not less than 90 days from the date we exercise the right to close on the transaction. We have the right to investigate and analyze the business, assets and liabilities and all other matters we deem necessary or desirable in order to make an informed investment decision with respect to the fairness of the terms of the proposed transaction. We may conduct such investigation and analysis in any manner we deem reasonably appropriate, and you and your Owners Principals must cooperate fully with us.

(3) If we exercise our right of first refusal, we are entitled to set off any monies owed by you to us and purchase such interest, subject to all representations, warranties, closing documents and indemnities as we reasonably may require, provided that, if we exercise our option as a result of a written offer reflected in a fully negotiated, definitive agreement with the proposed purchaser, we will not be entitled to any additional representations, warranties, closing documents or indemnities that will have a materially adverse effect on your rights and obligations under the definitive agreement.

(4) Our failure to exercise our right of first refusal shall not constitute approval of the proposed Transfer nor a waiver of any other provision of this Section 9 with respect to a proposed Transfer. If we do not exercise our right of first refusal, you or your Owners Principals may complete the sale to such offeror pursuant to and on the exact terms of such offer, subject to our consent to the Transfer as provided in Section 9.B., provided that if the sale to such offeror is not completed within 100 days after receipt of our notice of our decision not to exercise our right of first refusal, or if there is a material change in the terms of the offer, you must promptly notify us, and we will have an additional right of first refusal (on the terms of the revised offer, if any, and otherwise as set forth herein) during the 30-day period following your notification of the expiration of the 100-day period or the material change to the terms of the offer.

10. GENERAL RELEASE

You (on behalf of yourself and your parent, subsidiaries and affiliates and their respective past and present members, officers, directors, shareholders, agents and employees, in their corporate and individual capacities) and all guarantors of your obligations under this Agreement (collectively, "Releasors") freely and without any influence forever release and covenant not to sue us, our parent, subsidiaries and affiliates and their respective past and present officers, directors, shareholders, agents and employees in their corporate and individual capacities (collectively "Releasees") with respect to any and all claims, demands, liabilities and causes of action of whatever kind or nature, whether known or unknown, vested or contingent, suspected or unsuspected (collectively, "claims"), which any Releasor now owns or holds or may at any time have owned or held, including, without limitation, claims arising under federal, state and local laws, rules and ordinances and claims arising out of, or relating to this Agreement and all other agreements between any Releasor and any Releasee, the sale of any franchise to any Releasor, the development and operation of the Franchised Cafes and the development and operation of all other restaurants operated by any Releasor that are franchised by any Releasee. You expressly agree that fair consideration has been given by us for this General Release and you fully understand that this is a negotiated, complete and final release of all claims. This General Release does not release any claims arising from representations made in our Franchise Disclosure Document and its exhibits or otherwise impair or affect any claims arising after the date of this Agreement.

11. COVENANTS

A. **Best Efforts.** During the Development Term, you shall devote your best efforts to the development of the Franchised Cafes in the Development Area.

B. Confidentiality

(1) Pursuant to this Agreement, you will have access to our proprietary and confidential information relating to the development, management and operation of Corner Bakery Cafes ("Confidential Information"), which may include the following: (a) ingredients, recipes and methods of preparation and presentation of authorized food products; (b) site selection criteria for Corner Bakery Cafes and plans and specifications for the development of Corner Bakery Cafes; (c) sales, marketing and advertising programs and techniques for Corner Bakery Cafes; (d) identity of suppliers and knowledge of specifications, processes, procedures and equipment, contract terms, and pricing for authorized food products, materials, supplies and equipment; (e) knowledge of operating results and financial performance of Corner Bakery Cafes, other than Franchised Cafes that you own; (f) methods of inventory control, storage, product handling, training and management relating to Corner Bakery Cafes; (g) computer systems and software programs used or useful in Corner Bakery Cafes; and (h) any information that we provide you that is labeled proprietary or confidential.

(2) You acknowledge that: (a) we own all right, title and interest in and to the System; (b) the System consists of trade secrets, Confidential Information and know-how that gives us and our affiliates a competitive advantage; (c) we and our affiliates have taken all measures necessary to protect the trade secrets, Confidential Information and know-how comprising the System; (d) all Confidential Information now or hereafter provided or disclosed to you regarding the System is disclosed in confidence; (e) you have no right to disclose any Confidential Information to anyone who is not an employee, agent or independent contractor of yours; (f) you will disclose to your employees only those parts of the System that an employee, agent or independent contractor needs to know; (g) you will have a system in place to ensure that your employees, agents and independent contractors keep confidential our trade secrets and Confidential Information, and, if requested by us, you shall obtain from those of your employees, agents and independent contractors designated by us an executed Confidential Disclosure Agreement in the form prescribed by us; (h) you will not acquire any ownership interest in the System; and (i) your use or duplication of the System or any part of the System in any other business would constitute an unfair method of competition, for which we would be entitled to all legal and equitable remedies, including injunctive relief, without posting a bond.

(3) You shall not, during the Development Term or at any time thereafter, communicate or disclose any trade secrets, Confidential Information or know-how of the System to any unauthorized person, or do or perform, directly or indirectly, any other acts injurious or prejudicial to any of the Marks or the System. Any and all proprietary information, knowledge, know-how and techniques, including all drawings, materials, equipment, specifications, recipes, techniques and other data that we or our affiliates designate as Confidential Information, shall be deemed Confidential Information for purposes of this Agreement.

(4) The specific terms of this Agreement and all other agreements entered into by the parties and all drafts, amendments, attachments and exhibits to such agreements, (collectively referred to as "this Agreement" for purposes of this provision) are confidential and shall not be disclosed by any party without mutual agreement of the parties evidenced by a signed writing by all parties, except as we deem desirable or necessary to meet our financing and sales of securities needs or as necessary to comply with applicable law. Either party may disclose the specific terms of this Agreement to its respective accountants, attorneys and professional advisors.

C. Restrictions

(1) You acknowledge that: (a) pursuant to this Agreement, you will have access to valuable trade secrets, specialized training and Confidential Information from us and our affiliates regarding the development, operation, management, purchasing, sales and marketing methods and techniques of the System; (b) the System and the opportunities, associations and experience established by us and acquired by you under this Agreement are of substantial and material value; (c) in developing the System, we and our affiliates have made and continue to make substantial investments of time, technical and commercial research, and money; (d) we would be unable to adequately protect the System and its trade secrets and Confidential Information against unauthorized use or disclosure and would be unable to adequately

encourage a free exchange of ideas and information among Corner Bakery Cafes if franchisees and developers were permitted to hold interests in Competitive Businesses (as defined in Section 11.C.(2)(c)); and (e) restrictions on your right to hold interests in, or perform services for, Competitive Businesses will not unreasonably or unnecessarily hinder your activities.

(2) Accordingly, you covenant and agree that, during the Development Term and for a continuous period of two years following the expiration, termination or Transfer of this Agreement, you shall not directly, indirectly, for yourself, or through, on behalf of, or in conjunction with, any person, firm, partnership, corporation, or other entity in any manner whatsoever:

(a) Divert or attempt to divert any actual or potential business or customer of Corner Bakery Cafes to any competitor or otherwise take any action injurious or prejudicial to the goodwill associated with the Marks and the System.

(b) Employ or seek to employ any person who is then employed by us or any other Corner Bakery Cafe franchisee or developer, or otherwise directly or indirectly induce such person to leave his or her employment. In addition to any other rights and remedies available to us under this Agreement, in the event of a violation of this Section 11.C.(2)(b), we may elect, in our sole discretion, to require you to pay to us (or such other Corner Bakery Cafe developer or franchisee, as the case may be) an amount equal to three times the annual salary of the person(s) involved in such violation, plus an amount equal to our costs and attorney's fees incurred in connection with such violation.

(c) Own, maintain, develop, operate, engage in, franchise or license, make loans to, or have any interest in or render services or give advice to any "Competitive Business," which is defined as any business in the casual dining market or fast-casual segment of the restaurant industry that: (i) is substantially engaged in the selling of the following menu items: artisan baked breads, salads, sandwiches, soups, baked goods and/or coffee; or (ii) whose method of operation or trade dress is confusingly similar to that employed in the System.

(3) During the Development Term, there is no geographical limitation on these restrictions. During the 2-year period following the expiration or earlier termination of this Agreement, these restrictions shall apply within the Development Area and within 10 miles of any then-existing Corner Bakery Cafe, except as otherwise approved in writing by us. These restrictions shall not apply to your existing restaurant or foodservice operations, if any, which are identified in Appendix B, nor shall it apply to other restaurants operated by you that are franchised by CBC or our affiliates.

(4) You further covenant and agree that, for a period of two years following the expiration, termination or Transfer of this Agreement, you will not, either directly or indirectly, for yourself, or through, on behalf of, or in conjunction with any person, firm, partnership, corporation, or other entity, sell, assign, lease or transfer any Authorized Site to any person, firm, partnership, corporation, or other entity that you know, or have reason to know, intends to operate a Competitive Business at that Authorized Site. You, by the terms of any conveyance selling, assigning, leasing or transferring your interest in any Authorized Site, shall include these restrictive covenants as are necessary to ensure that a Competitive Business that would violate Section 11.C.(2)(c) or 11.C.(4) is not operated at that Authorized Site for this 2-year period, and you shall take all steps necessary to ensure that these restrictive covenants become a matter of public record.

(5) If any part of this Section 11.C. is found to be unreasonable in time or distance, each month of time or mile of distance may be deemed a separate unit so that the time or distance may be reduced by appropriate order of the court to that deemed reasonable. If, at any time during the 2-year period following expiration, termination or Transfer of this Agreement, you fail to comply with your obligations under this Section 11.C., that period of noncompliance will not be credited toward your satisfaction of the 2-year obligation.

D. **Modification.** We shall have the right, in our sole discretion, to reduce the scope of any covenant in this Section 11 effective immediately upon your receipt of written notice, and you agree that you

shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Section 19.

E. Execution of Covenants by Third Parties. At our request, you shall require and obtain the execution of covenants similar to those set forth in this Section 11 (including covenants applicable upon the termination of an individual's relationship with you) from all guarantors of your obligations. Every covenant required by this Section 11.E. shall be in a form satisfactory to us, including, without limitation, specific identification of CBC as a third party beneficiary of such covenants with the independent right to enforce them. Failure by you to obtain execution of a covenant required by this Section 11.E. shall constitute a material breach of this Agreement.

F. Survival. The terms of this Section 11 shall survive the termination, expiration, or any Transfer of this Agreement. The parties agree this Section 11 shall be construed as independent of any other provision of this Agreement.

G. Applicability. The restrictions contained in this Section 11 shall apply to you and all guarantors of your obligations. With respect to your guarantors, these restrictions shall apply for a 2-year period after the earlier of (1) the expiration, termination or Transfer of this Agreement; or (2) the date any guarantor ceases to be an officer, director, limited liability company manager, ~~Owner~~Principal or member of the Continuity Group. The restrictions contained in this Section 11 shall not apply to ownership of less than a 10% legal or beneficial ownership in the outstanding equity securities of any publicly held corporation by you or any guarantor of your obligations. The existence of any claim that you or any of your guarantors may have against CBC or our affiliates, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by us of the covenants in this Section 11. The preceding sentence, however, does not constitute a waiver of any such claim.

12. DEFAULT AND TERMINATION

A. Material Obligations. You acknowledge and agree that each obligation described in this Agreement is a material and essential obligation of yours; that nonperformance of any such obligation will adversely and substantially affect us and the System; and that our exercise of any of the rights and remedies set forth in this Section 12 are appropriate and reasonable.

B. Termination Without Cure Period. In addition to the grounds for termination that may be stated elsewhere in this Agreement, we may terminate this Agreement and the rights granted to you by this Agreement, upon written notice to you without an opportunity to cure upon the occurrence of any of the following events:

- (1) You fail to comply with the Development Schedule, including any Opening Date.
- (2) At any time during the Development Term, you fail to have open and operating the minimum number of Franchised Cafes required by the Development Schedule.
- (3) You are insolvent or unable to pay your creditors (including us); you file a petition in bankruptcy, an arrangement for the benefit of creditors or a petition for reorganization; there is filed against you a petition in bankruptcy, an arrangement for the benefit of creditors or petition for reorganization that is not dismissed within 60 days of the filing; you make an assignment for the benefit of creditors; or a receiver or trustee is appointed for you and not dismissed within 60 days of the appointment.
- (4) Execution is levied against your business or property; suit to foreclose any lien or mortgage against the premises or equipment of any Franchised Cafe is instituted against you and is not dismissed within 60 days; or the real or personal property of any Franchised Cafe shall be sold after levy thereupon by any sheriff, marshal or constable.
- (5) You allow a judgment in excess of \$25,000 against you to remain unsatisfied for a period of more than 30 days (unless a supersedeas or other appeal bond has been filed).

(6) There is a material breach by you of any covenant or obligation under Section 11.

(7) Any Transfer that requires our prior written consent occurs without your having obtained that prior written consent.

(8) We discover that you made a material misrepresentation in or omitted a material fact from the information that you provided to us in connection with our decision to enter into this Agreement.

(9) You make any material misrepresentation in your dealings with us or fail to disclose any material facts to us.

(10) You, any member of the Continuity Group or any OwnerPrincipal are convicted of, or plead no contest to, a felony charge, a crime involving moral turpitude, or any other crime or offense that is reasonably likely, in our sole opinion, to adversely affect us, our affiliates or the System.

(11) There is a material breach by you of any representation or warranty set forth in Sections 22.G. or 23.G.-H.

(12) Any assets, property, or interests of yours or your OwnersPrincipals are blocked under any law, ordinance, or regulation relating to terrorist activities, or you or any OwnerPrincipal violate any such law, ordinance or regulation.

(13) You, any member of the Continuity Group or any OwnerPrincipal: (a) remain in default beyond the applicable cure period under any other agreement with CBC or our affiliates (provided that, if the default is not by you, we shall provide to you written notice of the default and a 30-day period to cure the default); (b) remain in material default beyond the applicable cure period under any real estate lease, equipment lease, financing instrument, or supplier contract relating to any Franchised Cafe and that default will adversely affect your ability to develop or operate Franchised Cafes; or (c) fail to pay when due any taxes or assessments relating to any Franchised Cafe or its employees, unless you are actively prosecuting or defending the claim or suit in a court of competent jurisdiction or by appropriate government administrative procedure or by arbitration or mediation conducted by a recognized alternative dispute resolution organization.

(14) Except as specifically provided for in Sections 12.B.(1) – (13), you fail or refuse to comply with any provision of this Agreement or any requirement of the System and do not correct the failure or refusal within 30 days (10 days for monetary defaults) after receiving written notice of default. Except for monetary defaults, if the default cannot be corrected within 30 days, you shall have such additional time to correct the default as reasonably required (not to exceed 90 days), provided that you begin taking the actions necessary to correct the default during the 30-day cure period and diligently and in good faith pursue those actions to completion. You will be in default under this Section 12.B.(15) for any failure to comply materially with any of the requirements imposed by this Agreement or otherwise in writing, or to carry out the terms of this Agreement in good faith. If you have received two or more notices of default within the previous 12 months, we shall be entitled to send you a notice of termination upon your next default in that 12-month period under this Section 12.B. without providing you an opportunity to remedy that default.

C. Statutory Limitations. If any valid, applicable law or regulation of a competent governmental authority with jurisdiction over this Agreement requires a notice or cure period prior to termination longer than set forth in this Section, this Agreement shall be deemed amended to conform to the minimum notice or cure period required by the applicable law or regulation.

13. OBLIGATIONS ON TERMINATION OR EXPIRATION

A. Your Obligations. Upon termination or expiration of this Agreement:

(1) You have no further right to develop or open Franchised Cafes in the Development Area, except that you may complete and open a Franchised Cafe for which a Franchise Agreement has been

fully executed. Termination or expiration of this Agreement shall not affect your right to continue to operate Franchised Cafes that were open and operating as of the date this Agreement terminated or expired.

(2) Your limited exclusive rights in the Development Area shall immediately terminate, and we may operate or license others to operate restaurants identified in whole or in part by the Marks anywhere in the Development Area.

(3) You must promptly return to us the Manual, any copies of the Manual and all other materials and information furnished by CBC or our affiliates, except materials and information furnished with respect to a Franchised Cafe that is open and operating pursuant to an effective Franchise Agreement.

(4) You and all persons and entities subject to the covenants contained in Section 11 shall continue to abide by those covenants and shall not, directly or indirectly, take any action that violates those covenants.

(5) You immediately must pay us and our affiliates all sums due and owing pursuant to this Agreement.

(6) We will retain the Development Fee.

B. Evidence of Compliance. You shall furnish to us, within 30 days after the effective date of termination or expiration, evidence (certified to be true, correct and complete, by an officer or Owner/Principal) satisfactory to us of your compliance with Section 13.A.

C. Other Business Operations. You shall not, except with respect to a Comer Bakery Cafe franchised by CBC or our affiliates that is then open and operating pursuant to an effective Franchise Agreement: (1) operate or do business under any name or in any manner that might tend to give the public the impression that you are connected in any way with CBC or our affiliates or have any right to use the System or the Marks; (2) make, use or avail yourself of any of the materials or information furnished or disclosed by CBC or our affiliates under this Agreement or disclose or reveal any such materials or information or any portion thereof to anyone else; or (3) assist anyone not licensed by CBC or our affiliates to construct or equip a foodservice outlet substantially similar to a Comer Bakery Cafe.

D. Survival. The terms of this Section 13 shall survive the termination or expiration of this Agreement. You shall pay to us all damages, costs and expenses, including reasonable attorneys' fees, incurred by us subsequent to the termination or expiration of this Agreement in obtaining injunctive or other relief for the enforcement of any provisions of this Section 13.

14. RELATIONSHIP OF THE PARTIES

A. This Agreement does not create a fiduciary or other special relationship between the parties. No agency, employment, or partnership is created or implied by the terms of this Agreement, and you are not and shall not hold yourself out as agent, legal representative, partner, subsidiary, joint venturer or employee of CBC or our affiliates. You shall have no right or power to, and shall not, bind or obligate CBC or our affiliates in any way or manner, nor represent that you have any right to do so. You shall not issue any press releases without our prior written approval.

B. You are an independent contractor, and you are solely responsible for all aspects of the development and operation of the Franchised Cafes, subject only to the conditions and covenants established by this Agreement. Without limiting the generality of the foregoing, you acknowledge that we have no responsibility to ensure that the Franchised Cafes are developed and operated in compliance with all applicable laws, ordinances and regulations and that we shall have no liability in the event the development or operation of any Franchised Cafe violates any law, ordinance or regulation.

C. The sole relationship between you and us is a commercial, arms' length business relationship, and, except as provided in Section 15, there are no third party beneficiaries to this Agreement.

Your business is, and shall be kept, totally separate and apart from any that may be operated by us. In all public records, in relationships with other persons, and on letterhead and business forms that relate to the development or operation of Corner Bakery Cafes, you shall indicate that you are solely a franchisee of CBC Restaurant Corp.

15. INDEMNIFICATION

~~A. You and your Owners shall, at all times, indemnify, defend (with counsel reasonably acceptable to us), and hold harmless (to the fullest extent permitted by law) us and our affiliates, and our respective successors, assigns, past and present stockholders, directors, officers, employees, agents and representatives (collectively, "Indemnitees") from and against all "losses and expenses" (as defined below) incurred in connection with any action, suit, proceeding, claim, demand, investigation, inquiry (formal or informal), judgment or appeal thereof by or against Indemnitees or any settlement thereof (whether or not a formal proceeding or action had been instituted), arising out of or resulting from or connected with your activities under this Agreement, excluding the mere negligence or willful misconduct of any of the Indemnitees. You promptly shall give us written notice of any such action, suit, proceeding, claim, demand, inquiry or investigation filed or instituted against you and, upon request, shall furnish us with copies of any documents from such matters as we may request.~~

~~B. At your expense and risk, we may elect to assume (but under no circumstances will we be obligated to undertake) the defence and/or settlement of any action, suit, proceeding, claim, demand, investigation, inquiry, judgment or appeal thereof subject to this Section 15. Such an undertaking shall, in no manner or form, diminish your obligation to indemnify and hold harmless us and Indemnitees. We shall not be obligated to seek recoveries from third parties or otherwise mitigate losses.~~

~~C. As used in this Section, the phrase "losses and expenses" shall include, but not be limited to: all losses; compensatory, exemplary and punitive damages; fines; charges; costs; expenses; lost profits; reasonable attorneys' fees; expert witness fees; court costs; settlement amounts; judgments; compensation for damages to our reputation and goodwill; costs of or resulting from delays; financing; costs of advertising material and media time/space and the costs of changing, substituting or replacing the same; and any and all expenses of recall, refunds, compensation, public notices and other such amounts incurred in connection with the matters described.~~

A. You and your Principals will defend, indemnify and hold harmless, CBC and our parent, affiliates, subsidiaries and their successors and assigns, and each of their respective direct and indirect owners, directors, officers, managers, employees, agents, attorneys, and representatives (collectively, "Indemnified Parties") from and against all Losses (as defined below) which any of the Indemnified Parties may suffer, sustain or incur as a result of a claim asserted or inquiry made formally or informally, or a legal action, investigation, or other proceeding brought by a third party and directly or indirectly arising out of your development and operation of the Franchised Cafes, your conduct of business under this Agreement or your breach of this Agreement. We will promptly notify you of any claim that may give rise to a claim of indemnity hereunder, provided, however, that the failure to provide such notice will not release you from your indemnification obligations under this Section except to the extent you are actually and materially prejudiced by such failure. You will have the right, upon written notice delivered to the Indemnified Party within 15 days thereafter assuming full responsibility for Losses resulting from such claim, to assume and control the defense of such claim, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of the fees and disbursements of such counsel. If (1) the Indemnified Party will have been advised by counsel that there are one or more legal or equitable defenses available to it that are different from or in addition to those available to you and, in the reasonable opinion of the Indemnified Party, your counsel could not adequately represent the interests of the Indemnified Party because such interests could be in conflict with your interests, or (2) you do not assume responsibility for such Losses in a timely manner or you fail to defend a claim with counsel reasonably satisfactory to the Indemnified Party as contemplated above, then the Indemnified Party will have the right to employ counsel of its own choosing, and you will pay the fees and disbursements of such Indemnified Party's counsel as incurred. In connection with any claim, the Indemnified Party or you, whichever is not assuming the defense of such claim, will have the right to participate in such claim and to retain its own counsel at such party's own expense. You or the Indemnified

Party (as the case may be) will keep you or the Indemnified Party (as the case may be) reasonably apprised of, and will respond to any reasonable requests concerning, the status of the defense of any claim and will cooperate in good faith with each other with respect to the defense of any such claim. You will not, without the prior written consent of the Indemnified Party, (a) settle or compromise any claim or consent to the entry of any judgment with respect to any claim which does not include a written release from liability of such claim for the Indemnified Party and its affiliates, direct and indirect owners, directors, managers, employees, agents and representatives, or (b) settle or compromise any claim in any manner that may adversely affect the Indemnified Party other than as a result of money damages or other monetary payments which will be paid by you. No claim which is being defended in good faith by you in accordance with the terms of this Section will be settled by the Indemnified Party without your prior written consent. Notwithstanding anything to the contrary herein, if a claim involves the Marks, you agree that we will have the exclusive right to assume the defense of such claim, at your expense with counsel selected by us, but reasonably satisfactory to you.

B. You have no obligation to indemnify or hold harmless an Indemnified Party for any Losses to the extent they are determined in a final, unappealable ruling issued by a court or arbitrator with competent jurisdiction to have been caused solely and directly by the Indemnified Party's gross negligence, willful misconduct, or willful wrongful omissions.

C. For purposes of this Section, "Losses" include all obligations, liabilities, damages (actual, consequential, or otherwise), and defense costs that any Indemnified Party incurs. Defense costs include, without limitation, accountants', arbitrators', attorneys', and expert witness fees, costs of investigation and proof of facts, court costs, travel and living expenses, and other expenses of litigation, arbitration, and alternative dispute resolution.

D. Your obligations in this Section will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination. An Indemnified Party need not seek recovery from any insurer or other third party, or otherwise mitigate its Losses, in order to maintain and recover fully a claim against you under this Section. You agree that a failure to pursue a recovery or mitigate a Loss will not reduce or alter the amounts that an Indemnified Party may recover from you under this Section.

16. CONSENTS, APPROVALS AND WAIVERS

A. Whenever this Agreement requires our prior approval or consent, you shall make a timely written request to us therefor, and any approval or consent received, in order to be effective and binding upon us, must be obtained in writing and be signed by one of our authorized officers.

B. We make no warranties or guarantees upon which you may rely by providing any waiver, approval, consent or suggestion to you in connection with this Agreement and assume no liability or obligation to you therefor, or by reason of any neglect, delay, or denial of any request therefor. We shall not, by virtue of any approvals, advice or services provided to you, assume responsibility or liability to you or to any third parties to which we would not otherwise be subject.

C. No failure by us to exercise any power reserved to us by this Agreement or to insist upon strict compliance by you with respect to any obligation or condition under this Agreement, and no custom or practice of the parties at variance with any term of this Agreement, shall constitute a waiver of our right to demand exact compliance with any term of this Agreement. Our waiver of any particular default by you shall not affect or impair our rights with respect to any subsequent default of the same, similar or different nature, nor shall any delay, forbearance or omission by us in exercising any power or right arising out of any breach or default by you of any term, provision or covenant of this Agreement affect or impair our right to exercise the same, nor shall such constitute a waiver by us of any right under this Agreement, or the right to declare any subsequent breach or default and to terminate this Agreement prior to the expiration of the Development Term. Our subsequent acceptance of any payments due to us under this Agreement shall not be deemed to be a waiver by us of any preceding breach by you of any term, covenant or condition of this Agreement.

17. NOTICES

No notice, demand, request or other communication to the parties shall be binding upon the parties, unless the notice is in writing, refers specifically to this Agreement and: (A) if to you, is addressed to you at the notice address set forth in Appendix B; and (B) if to us, is addressed to CBC Restaurant Corp. at: 12700 Park Central Drive, Suite 1300, Dallas, Texas 75251 (Attn: General Counsel) (Facsimile: (972) 534-1708). Any party may designate a new address for notices by giving written notice of the new address pursuant to this Section. Notices shall be effective upon receipt (or first rejection) and may be: (1) delivered personally; (2) transmitted by facsimile or electronic mail to the number(s) set forth above (or in Appendix B) with electronic confirmation of receipt; (3) mailed in the United States mail, postage prepaid, certified mail, return receipt requested; or (4) mailed via overnight courier.

18. FORCE MAJEURE

If the performance of any obligation by any party under this Agreement is prevented, hindered or delayed by reason of Force Majeure that cannot be overcome by reasonable commercial measures, the parties shall be relieved of their respective obligations (to the extent that the parties, having exercised best efforts, are prevented, hindered or delayed in such performance) during the period of such Force Majeure. The party whose performance is affected by an event of Force Majeure shall give prompt written notice of such Force Majeure event to the other party by setting forth the nature thereof and an estimate as to its duration. As used in this Agreement, the term "Force Majeure" means any act of God, strike, lock-out or other industrial disturbance, war (declared or undeclared), riot, epidemic, fire or other catastrophe, act of any government or other third party and any other cause not within the control of the party affected thereby. Your inability to obtain financing (regardless of the reason) shall not constitute Force Majeure.

19. ENTIRE AGREEMENT

We and you acknowledge that each element of this Agreement is essential and material and that, except as otherwise provided in this Agreement, the parties shall deal with each other in good faith. This Agreement, the Manual, the documents referred to in this Agreement and the attachments to this Agreement, constitute the entire, full and complete agreement between the parties concerning the matters covered in this Agreement, and supersede any and all prior or contemporaneous negotiations, discussions, understandings or agreements. There are no other representations, inducements, promises, agreements, arrangements, or undertakings, oral or written, between the parties relating to the matters covered by this Agreement other than those set forth in this Agreement, our Franchise Disclosure Document, the Manual, the documents referred to in this Agreement, and the attachments to this Agreement. Nothing in this Agreement requires you to waive reliance on the representations made in our Franchise Disclosure Document. No obligations or duties that contradict or are inconsistent with the express terms of this Agreement may be implied into this Agreement. Except as expressly set forth in this Agreement, no amendment, change or variance from this Agreement shall be binding on either party, unless mutually agreed to by the parties and signed in writing.

20. DISPUTE RESOLUTION

A. **Non-Binding Mediation.** The parties agree that either party may submit any claim, controversy, or dispute arising out of this Agreement to non-binding mediation, provided the parties shall not be required to pursue mediation of any claim, controversy, or dispute as a prerequisite to filing a lawsuit or commencing other legal proceedings, and the pendency of a mediation shall not cause any legal proceedings to be stayed pending the outcome of the mediation. Any such non-binding mediation shall be conducted through either an individual mediator or a mediation services organization, provided the mediator shall be experienced in the mediation of food service business disputes and agreed upon by the parties.

B. **Choice of Law.** This Agreement and any claim or controversy arising out of, or relating to, rights and obligations of the parties under this Agreement and any other claim or controversy between the parties shall be governed by and construed in accordance with the laws of the State of Texas without regard to conflicts of laws principles. Nothing in this Section is intended, or shall be deemed, to make any Texas law regulating the offer or sale of franchises or the franchise relationship applicable to this Agreement if such law would not otherwise be applicable.

C. **Choice of Forum.** The parties agree that, to the extent any disputes cannot be resolved directly between them, ~~you~~^{they} shall file any suit against ~~each other~~ only in the federal or state court having jurisdiction where ~~our~~^{CBC's} principal offices are located at the time suit is filed. ~~We may file suit in the federal or state court located in the jurisdiction where our principal offices are located at the time suit is filed, where you reside or do business, where the Development Area or any Franchised Cafe is or was located or where the claim arose.~~ You consent to the personal jurisdiction of those courts over you and to venue in these courts.

D. **Limitations of Actions.** Except for payments owed by one party to the other, and unless prohibited by applicable law, any legal action or proceeding (including the offer and sale of a franchise to you) brought or instituted with respect to any dispute arising from or related to this Agreement or with respect to any breach of the terms of this Agreement must be brought or instituted within a period of two years after the initial occurrence of any act or omission that is the basis of the legal action or proceeding, whenever discovered.

E. **Place of Execution of Agreement.** The parties acknowledge that: (1) this Agreement was executed in Dallas County, Texas; and (2) performance of certain obligations by you and your Owners~~Principals~~ under this Agreement, including payment of monetary sums due under this Agreement, shall be deemed to occur at our principal offices in Dallas, Texas.

F. **Reimbursement of Costs and Expenses.** If either party brings an action to enforce this Agreement in a judicial proceeding, the party prevailing in that proceeding shall be entitled to reimbursement of costs and expenses, including, but not limited to, reasonable accountants', attorneys', attorneys' assistants' and expert witness fees, the cost of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses, whether incurred prior to, during, in preparation for, or in contemplation of the filing of, the proceeding. If we utilize legal counsel (including in-house counsel employed by us) in connection with any failure by you to comply with this Agreement, you shall reimburse us for any of the above-listed costs and expenses incurred by us. In any judicial proceeding, the amount of these costs and expenses will be determined by the court and not by a jury.

G. **Rights of Parties are Cumulative.** The parties' rights under this Agreement are cumulative and the exercise or enforcement of any right or remedy under this Agreement will not preclude the exercise or enforcement by a party of any other right or remedy under this Agreement that it is entitled by law or this Agreement to exercise or enforce.

H. **WAIVER OF PUNITIVE DAMAGES and Jury Trial.** ~~To the fullest extent permitted by law, the parties waive any right to, or claim for, any consequential, punitive or exemplary damages against the other party. The parties also agree that, in the event of a dispute between them, the party making a claim will be limited to recovery of actual damages, if any. In addition, the parties irrevocably waive, **CLASS ACTION LAWSUITS AND JURY TRIAL.** TO THE FULLEST EXTENT PERMITTED BY LAW, THE PARTIES WAIVE ANY RIGHT TO, OR CLAIM FOR, ANY CONSEQUENTIAL, PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER PARTY. THE PARTIES ALSO AGREE THAT, IN THE EVENT OF A DISPUTE BETWEEN THEM, THE PARTY MAKING A CLAIM WILL BE LIMITED TO RECOVERY OF ACTUAL DAMAGES, IF ANY. IN ADDITION, THE PARTIES IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO BRING, OR BE A CLASS MEMBER IN, ANY CLASS ACTION SUITS AND THE RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING, AND/OR COUNTERCLAIM BROUGHT BY EITHER PARTY.~~

21. SEVERABILITY AND CONSTRUCTION

A. **Severability.** Each article, paragraph, subparagraph, term and condition of this Agreement, and any portions thereof, will be considered severable. If, for any reason, any portion of this Agreement is determined to be invalid, contrary to, or in conflict with, any applicable present or future law, rule or regulation in a final, unappealable ruling issued by any court, agency or tribunal with valid jurisdiction in a proceeding to which you and we are a party, that ruling will not impair the operation of, or have any other

effect upon, any other portions of this Agreement, all of which will remain binding on the parties and continue to be given full force and effect.

B. Modification to Scope of Covenants by Law. You expressly agree to be bound by any promise or covenant imposing the maximum duty permitted by law that is subsumed within the terms of any provision of this Agreement, 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 that a court may hold to be unreasonable and unenforceable in a final decision to which we are a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court order.

C. Our Discretion. Whenever we have expressly reserved in this Agreement a right and/or discretion to take or withhold an action, or to grant or decline to grant you a right to take or withhold an action, except as otherwise expressly and specifically provided in this Agreement, we may make such decision or exercise our right and/or discretion on the basis of our judgment of what is in our best interests. This also applies if we are deemed to have a right and/or discretion. Our judgment of what is in the best interests of the System, at the time our decision is made or our right or discretion is exercised, can be made without regard to whether: (1) other reasonable alternative decisions or actions, or even arguably preferable alternative decisions or actions, could have been made by us; (2) our decision or the action taken promotes our financial or other individual interest; (3) our decision or the action taken applies differently to you and one or more other franchisees or our company-owned or affiliate-owned operations; or (4) our decision or the action taken is adverse to your interests. We will have no liability to you for any such decision or action. We and you intend that the exercise of CBC's right or discretion will not be subject to limitation or review. If applicable law implies a covenant of good faith and fair dealing in this Agreement, we and you agree that such covenant will not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement and that this Agreement grants us the right to make decisions, take actions and/or refrain from taking actions not inconsistent with your rights and obligations under this Agreement.

D. Interpretation. No provision of this Agreement shall be interpreted in favor of, or against, any party because of the party that drafted this Agreement.

22. MISCELLANEOUS

A. Gender and Number. All references to gender and number shall be construed to include such other gender and number as the context may require.

B. Captions. 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 of this Agreement.

C. Counterparts. This Agreement may be executed in counterparts, and each copy so executed and delivered shall be deemed an original.

D. References. Each reference in this Agreement to a corporation or partnership also shall be deemed to refer to a limited liability company and any other entity or organization similar thereto if applicable. Each reference to the organizational documents, owners, directors, and officers of a corporation in this Agreement shall be deemed to refer to the functional equivalents of such organizational documents, owners, directors, and officers, as applicable, in the case of a limited liability company or any other entity or organization similar thereto if applicable.

E. Time. Time is of the essence of this Agreement for each provision in which time is a factor. Whenever this Agreement refers to a period of days or months, the first day or month to be counted shall be the day or month of the designated action, event or notice. Days shall be measured by calendar days, except that if the last day of a period is a Saturday, Sunday or national holiday, the period automatically shall be extended to the next day that is not a Saturday, Sunday or national holiday.

F. Injunctive Relief. You recognize that your failure to comply with the terms of this Agreement, including, but not limited to, the failure to comply fully with all post-termination obligations, is

likely to cause irreparable harm to us, our affiliates and the System. Therefore, you agree that, in the event of a breach or threatened breach of any of the terms of this Agreement by you, we shall be entitled to injunctive relief (both preliminary and permanent) restraining that breach and/or to specific performance without showing or proving actual damages and without posting any bond or security. Any equitable remedies sought by us shall be in addition to, and not in lieu of, all remedies and rights that we otherwise may have arising under applicable law or by virtue of any breach of this Agreement.

G. Terrorist Acts. You acknowledge that under applicable U.S. law, including, without limitation, Executive Order 13224, signed on September 23, 2001 ("Order"), we are prohibited from engaging in any transaction with any person engaged in, or with a person aiding any person engaged in, acts of terrorism, as defined in the Order. Accordingly, you represent and warrant to us that, as of the date of this Agreement, neither you nor any person holding any ownership interest in you, controlled by you, or under common control with you is designated under the Order as a person with whom we may not transact business, and that you: (1) do not, and hereafter shall not, engage in any terrorist activity; (2) are not affiliated with and do not support any individual or entity engaged in, contemplating, or supporting terrorist activity; and (3) are not acquiring the rights granted under this Agreement with the intent to generate funds to channel to any individual or entity engaged in, contemplating, or supporting terrorist activity, or to otherwise support or further any terrorist activity.

23. REPRESENTATIONS

You represent, acknowledge and warrant to us (and you agree that these representations, acknowledgments and warranties shall survive termination of this Agreement) that:

A. Legal and Business Rights and Risks. This Agreement involves significant legal and business rights and risks. We do not guarantee your success. You have read this Agreement in its entirety, conducted an independent investigation of the business contemplated by this Agreement, have been thoroughly advised with regard to the terms and conditions of this Agreement by legal counsel or other advisors of your choosing, recognize that the nature of the business conducted by Corner Bakery Cafes may change over time, have had ample opportunity to investigate all representations made by or on our behalf, and have had ample opportunity to consult with our current and former developers and franchisees. The prospect for success of the business undertaken by you is speculative and depends to a material extent upon your personal commitment, capability and direct involvement in the day-to-day management of the business.

B. Our Acceptance of Sites. Our acceptance of one or more sites or our refusal to accept other sites is not a representation that any site will achieve a certain sales volume or a certain level of profitability, or that a site we approve will have a higher sales volume or be more profitable than a site which we did not approve. Our approval merely means that the site meets our minimum site selection criteria. Because real estate development is an art and not a precise science, you agree that our acceptance, or our refusal to accept a proposed site, whether or not a site application is completed and/or submitted to us shall not impose any liability or obligation on us. The decision to accept or reject a particular site is yours, subject to our acceptance. Preliminary approval of a proposed site by any of our representatives is not conclusive or binding, because his or her recommendation may be rejected by us.

C. Evaluation of Authorized Site. We assume no liability or responsibility for: (1) evaluation of an Authorized Site's soil for hazardous substances; (2) inspection of any evaluation of an Authorized Site's compliance with the ADA; or (3) evaluation of an Authorized Site's compliance with any other law. It is your sole responsibility to obtain satisfactory evidence and/or assurances that each Authorized Site (and any structures thereon) is free from environmental contamination and is in compliance with the requirements of ADA and any other laws.

D. No Representation of Your Success. We make no express or implied warranties or representations that you will achieve any degree of success in the development or operation of the Franchised Cafes. Your success in the development and operation of the Franchised Cafes depends

ultimately on your efforts and abilities and on other factors, including, but not limited to, market and other economic conditions, your financial condition and competition.

E. **Our Agreements with Third Parties.** We have entered, and will continue to enter, into agreements with other developers and franchisees for Corner Bakery Cafes. The manner in which we enforce our rights and the developers' or franchisees' obligations under any of those other agreements shall not affect our ability to enforce our rights or your obligations under this Agreement.

F. **Refundability of Development Fee.** The Development Fee is not refundable for any reason.

G. **Franchise Application.** All information that you provided to us in connection with your franchise application and our grant to you of the opportunity to develop Corner Bakery Cafes is truthful, complete and accurate.

H. **Signatories to this Agreement.** The persons signing this Agreement on your behalf have full authority to enter into this Agreement and the other agreements contemplated by the parties, including the Franchise Agreements. Your execution of this Agreement or such other agreements does not and will not conflict or interfere with, directly or indirectly, intentionally or otherwise, with the terms of any other agreement with any other third party to which you or any Owner ~~Principal~~ is a party.

I. **No Representations Other Than Franchise Disclosure Document.** You have not received from CBC or our affiliates, or anyone acting on our behalf, any representations other than those contained in our Franchise Disclosure Document as inducements to enter this Agreement.

J. **No Actual or Apparent Authority.** Even though this Agreement contains provisions requiring you to develop the Franchised Cafes in compliance with the System: (1) we and our affiliates do not have actual or apparent authority to control the day-to-day conduct and operation of your business or employment decisions; and (2) you and we do not intend for CBC or our affiliates to incur any liability in connection with or arising from any aspect of the System or your use of the System whether or not in accordance with the requirements of the Manual, except with respect to any liability arising from our gross negligence or willful misconduct.

K. **Limited Exclusivity.** You understand that there are certain limitations to your exclusive rights in the Development Area during the Development Term and that, following termination or expiration of the Development Term, we may develop and operate, and license others to develop and operate, restaurants identified in whole or in part by the name and mark "Corner Bakery Cafe" at any location in the Development Area.

~~L. **Waiver of Right to Jury Trial.** In the event of a dispute between you and you, the parties have waived their right to a jury trial.~~

~~M. **Limited Liability for Our Related Parties.** Except when another entity guarantees our obligations under this Agreement as provided for in the guaranty in our Franchise Disclosure Document (the "Guaranteeing Entity"), you agree that no past, present or future director, officer, employee, incorporator, member, partner, stockholder, subsidiary, affiliate, controlling party, entity under common control, ownership or management, vendor, service provider, agent, attorney or representative of ours (other than the Guaranteeing Entity but only to the extent of the terms of the guaranty) will have any liability for (i) any of our obligations or liabilities relating to or arising from this Agreement, (ii) any claim against us based on, in respect of, or by reason of, the relationship between you and us, or (iii) any claim against us based on any alleged unlawful act or omission.~~

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IN WITNESS WHEREOF, the parties have duly executed, sealed and delivered this Agreement as of the day and year first above written.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

PERSONAL GUARANTY AND ASSUMPTION OF DEVELOPER'S OBLIGATIONS

In consideration of, and as an inducement to, the execution of the Corner Bakery Cafe Area Development Agreement dated as of _____ ("Agreement") by CBC Restaurant Corp. ("CBC"), entered into with _____ ("Developer"), the undersigned ("Guarantors"), each of whom is an officer, director or limited liability company manager of Developer, member of Developer's Continuity Group or a direct owner of a legal or beneficial interest in Developer of 10% or more ("OwnerPrincipal"), hereby personally and unconditionally: (1) guarantee to CBC and its successors and assigns, for the Development Term and thereafter as provided in the Agreement, that Developer shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; (2) agree personally to be bound by the provisions of Sections 11 and 15 of the Agreement; and (3) agree personally to be liable for the breach of Section 11 of the Agreement.

Each Guarantor hereby waives: (a) all rights to payments and claims for reimbursement or subrogation that any Guarantor may have against Developer arising as a result of the execution of and performance under this Guaranty, for the express purpose that none of the undersigned Guarantors shall be deemed a "creditor" of Developer under any applicable bankruptcy law with respect to Developer's obligations to CBC; (b) all rights to require CBC to proceed against Developer for any payment required under the Agreement, proceed against or exhaust any security from Developer, take any action to assist any of the undersigned in seeking reimbursement or subrogation in connection with this Guaranty or pursue, enforce or exhaust any remedy, including any legal or equitable relief, against Developer; (c) any benefit of, any right to participate in, any security now or hereafter held by CBC; and (d) acceptance and notice of acceptance by CBC of the foregoing his, her or its undertakings; (b) notice under this Guaranty, all presentments, demands and notices of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; (c) protest and notice, notices of dishonor, notices of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed; (d) any right he may have to require that an action be brought against Developer or, and any other person as a condition of liability; (e) all rights to payments and claims for reimbursement or subrogation that any Guarantor may have against Developer arising as a result of the execution of and performance under this Guaranty by each Guarantor; (f) any law or statute that requires CBC to make demand upon, assert claims against or collect from Developer or any others, foreclose any security interest, sell collateral, exhaust any remedies or take any other action against Developer or any others prior to making any demand upon, collecting from or taking any action against Guarantor with respect to this Guaranty; (g) any and all other notices and legal or equitable defenses to which he, she or it may be entitled; and (b) ~~e~~ any and all right to have any legal action under this Guaranty decided by a jury. CBC shall have no present or future duty or obligation to any Guarantor under this Guaranty, and each Guarantor waives any right to claim or assert any such duty or obligation, to discover or disclose to any Guarantor any information, financial or otherwise, concerning Developer, any other guarantor, or any collateral securing any obligations of Developer to CBC.

Each Guarantor consents and agrees that: (i) his direct and immediate liability under this Guaranty shall be joint and several; (ii) he shall render any payment or performance required under the Agreement upon demand if Developer fails or refuses punctually to do so; (iii) such liability shall not be contingent or conditioned upon pursuit by CBC of any remedies against Developer or any other person; (iv) such liability shall not be diminished, relieved or otherwise affected by any amendment of the Agreement, any extension of time, credit or other indulgence which CBC may from time to time grant to Developer or to any other person, including, without limitation, the acceptance of any partial payment or performance or the compromise or release of any claims, none of which shall in any way modify or amend this Guaranty, which shall be continuing and irrevocable during the Development Term and for so long thereafter as there are monies or obligations owing from Developer to CBC or its affiliates under the Agreement; and (v) monies received from any source by CBC for application toward payment of the obligations under the Agreement and under this Guaranty may be applied in any manner or order deemed appropriate by CBC. In addition, if any of Guarantor ceases to be a member of the Continuity

| Group, an Owner, a Principal, an officer or a director of Developer, or to own any interest in Developer prior to termination or expiration of the Agreement, that person agrees that his obligations under this Guaranty shall continue to remain in force and effect unless CBC in its sole discretion, in writing, releases that person from this Guaranty. Notwithstanding the provisions of the previous sentence, unless prohibited by applicable law, the obligations contained in Section 11.C. shall remain in force and effect for a period of two years after any such release by CBC. A release by CBC of any Guarantor shall not affect the obligations of any other Guarantor.

If CBC brings an action to enforce this Guaranty, and CBC prevails in that action, CBC shall be entitled to reimbursement of its costs and expenses, including, but not limited to, reasonable accountants', attorneys', attorneys' assistants' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses, whether incurred prior to, in preparation for, in contemplation of or subsequent to the filing of any such proceeding. In any judicial proceeding, these costs and expenses shall be determined by the court and not by a jury.

If CBC utilizes legal counsel (including in-house counsel employed by CBC or its affiliates) in connection with any failure by any Guarantor to comply with this Guaranty, the Guarantors shall reimburse CBC for any of the above-listed costs and expenses incurred by it.

If any of the following events occur, a default ("Default") under this Guaranty shall exist: (a) failure of timely payment or performance of the obligations under this Guaranty; (b) breach of any agreement or representation contained or referred to in this Guaranty; (c) appointment of a guardian for, dissolution of, termination of existence of, loss of good standing status by, appointment of a receiver for, assignment for the benefit of creditors of, or the commencement of any insolvency or bankruptcy proceeding by or against, any Guarantor; and/or (d) the entry of any monetary judgment or the assessment against, the filing of any tax lien against, or the issuance of any writ of garnishment or attachment against any property of or debts due any Guarantor. If a Default occurs, the obligations of Guarantor shall be due immediately and payable without notice.

This Guaranty shall inure to the benefit of and be binding upon the parties and their respective heirs, legal representatives, successors and assigns. CBC's interests in and rights under this Guaranty are freely assignable, in whole or in part, by CBC. Any assignment shall not release any Guarantor from this Guaranty.

Section 20 of the Agreement is incorporated by reference into this Guaranty, and all capitalized terms that are not defined in this Guaranty shall have the meaning given them in the Agreement.

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IN WITNESS WHEREOF, each Guarantor has hereunto affixed his signature, under seal.

GUARANTORS:

Date: _____	_____ (Seal)
	Print Name: _____
	Address: _____
Date: _____	_____ (Seal)
	Print Name: _____
	Address: _____
Date: _____	_____ (Seal)
	Print Name: _____
	Address: _____
Date: _____	_____ (Seal)
	Print Name: _____
	Address: _____

**APPENDIX A
DEVELOPMENT AREA**

The Development Area shall be:

The Development Area may also be depicted on a map, and if so, that map will be attached to this Appendix A. Your rights in the Development Area are subject to the limitations described in Section 1 of the Area Development Agreement. Any political boundaries contained in the description of the Development Area shall be considered fixed as of the date of the Area Development Agreement and shall not change notwithstanding a change in those boundaries. Unless otherwise specified, all street boundaries shall be deemed to include both sides of the street.

MAP OF DEVELOPMENT AREA

**APPENDIX B
DEVELOPMENT INFORMATION**

1. **Development Schedule (Section 1.A.):** You must develop and continue to operate a minimum of _____ Franchised Cafes in the Development Area, in accordance with the following schedule:

Opening Date	Cumulative Number of Franchised Cafes To Be Open And Operating On The Opening Date

2. **Development Fee (Section 3.A.):** The Development Fee is \$_____ (\$10,000 for each Franchised Cafe).

3. **Initial Franchise Fee (Section 3.B.):** The Initial Franchise Fee for each Franchised Cafe that you develop pursuant to this Area Development Agreement shall be \$_____ \$25,000.

4. **Interests in Other Restaurants (Section 11.C.(3)):** _____

5. **Your Notice Address, Facsimile Number and Email Address (Section 17):** _____

**APPENDIX C
OWNERSHIP INTERESTS**

CORPORATION

If you are a corporation, the number of authorized shares in you that have been issued is _____, and the name, address, number of shares owned (legally or beneficially) and office held by each shareholder is as follows:

Name	Address	No. of Shares	Office Held

LIMITED LIABILITY COMPANY

If you are a limited liability company, the name, address and percentage interest of each member is as follows:

Name	Address	Percentage Interest

BUSINESS ENTITY

If you are a business entity other than a corporation or limited liability company, the name, address and percentage interest of each owner is as follows:

Name	Address	Percentage Interest

CONTINUITY GROUP

Your Continuity Group is comprised of the following persons: _____

DEVELOPER:

By: _____
Print Name: _____
Title: _____
Date: _____

**APPENDIX D
FORM OF ADDENDUM TO LEASE**

THIS ADDENDUM is executed as of this ____ day of _____, _____, by and between _____ ("Franchisee") and _____ ("Landlord"), as an addendum to the lease, as modified, amended, supplemented, renewed and/or extended from time to time as contemplated herein, ("Lease") for the premises located at _____, State of _____ ("Premises") dated as of _____.

Franchisee has entered into a Development Agreement and/or a Franchise Agreement ("Franchise Agreement") with CBC Restaurant Corp. ("Franchisor") for the development and operation of a Corner Bakery Cafe at the Premises, and as a requirement thereof, the lease for the Premises must contain the provisions contained in this Addendum.

Landlord and Franchisee agree that the terms contained herein shall supersede any terms to the contrary set forth in the Lease.

NOW THEREFORE, in consideration of mutual covenants set forth herein, the execution and delivery of the Lease, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Franchisee hereby agree as follows:

1. Landlord shall deliver to Franchisor a copy of any notice of default or termination of the Lease at the same time such notice is delivered to Franchisee.
2. Franchisee hereby assigns to Franchisor, with Landlord's irrevocable and unconditional consent, all of Franchisee's rights, title and interests to and under the Lease upon any termination or non-renewal of the Franchise Agreement, but no such assignment shall be effective unless: (a) the Franchise Agreement is terminated or expires without renewal; (b) Franchisor has exercised its Option to Purchase under the Franchise Agreement; and (c) Franchisor notifies the Franchisee and Landlord in writing that Franchisor assumes Franchisee's obligations under the Lease.
3. Franchisor shall have the right, but not the obligation, upon giving written notice of its election to Franchisee and Landlord, to cure any breach of the Lease and, if so stated in the notice, to also succeed to Franchisee's rights, title and interests thereunder.
4. The Lease may not be modified, amended, supplemented, renewed, extended or assigned by Franchisee without Franchisor's prior written consent.
5. Franchisee and Landlord acknowledge and agree that Franchisor shall have no liability or obligation whatsoever under the Lease unless and until Franchisor assumes the Lease in writing pursuant to Section 2 or Section 3, above.
6. If Franchisor assumes the Lease, as provided above, Franchisor may, without Landlord's prior consent, further assign the Lease to a franchisee of Franchisor to operate the Corner Bakery Cafe at the Premises provided that the following criteria are met: (a) Franchisor has an established franchising program for Corner Bakery Cafes; and (b) the proposed franchisee has met all of Franchisor's applicable program criteria and requirements and has executed Franchisor's standard franchise agreement. Landlord agrees to execute such further documentation to confirm its consent to the assignment permitted under this Addendum as Franchisor may reasonably request. Upon such assignment to a franchisee of Franchisor, Franchisor shall be released from any further liability under the terms and conditions of the Lease.

7. Landlord and Franchisee hereby acknowledge that Franchisee has agreed under the Franchise Agreement that Franchisor and its employees or agents shall have the right to enter the Premises for certain purposes. Landlord hereby agrees not to interfere with or prevent such entry by Franchisor, its employees or agents. Landlord and Franchisee hereby further acknowledge that in the event the Franchise Agreement expires (without renewal) or is terminated, Franchisee is obligated to take certain steps under the Franchise Agreement to de-identify the Premises as a Corner Bakery Cafe. Landlord agrees to permit Franchisor, its employees or agent, to enter the Premises and remove signs (both interior and exterior), décor and materials displaying any marks, designs or logos owned by Franchisor, provided Franchisor shall bear the expense of repairing any damage to the Premises as a result thereof.
8. Landlord and Franchisee agree that if Landlord is an affiliate or ~~an Ownor~~ Principal of Franchisee, as defined in the Franchise Agreement, and Landlord proposes to sell the Premises, prior to the sale of the Premises, the Lease upon the request of Franchisor shall be amended to reflect a rental rate and other terms that are the reasonable and customary rental rates and terms prevailing in the community where the Corner Bakery Cafe is located.
9. Landlord agrees that during and after the term of the Lease, it will not disclose or use Franchisor's Confidential Information (as defined below) for any purpose other than for the purpose of fulfilling Landlord's obligations under the Lease. "Confidential Information" as used herein shall mean all non-public information and tangible things, whether written, oral, electronic or in other form, provided or disclosed by or on behalf of Franchisee to Landlord, or otherwise obtained by Landlord, regarding the design and operations of the business located at the Premises, including, without limitation, all information identifying or describing the floor plan, equipment, furniture, fixtures, wall coverings, flooring materials, shelving, decorations, trade secrets, trade dress, "look and feel," layout, design, menus, recipes, formulas, manner of operation, suppliers, vendors, and all other products, goods, and services used, useful or provided by or for Franchisee on the Premises. Landlord acknowledges that all Confidential Information belongs exclusively to Franchisor. Landlord agrees that should it breach or threaten to breach this provision of this Addendum, Franchisor will suffer irreparable damages and Franchisor's remedy at law will be inadequate. Therefore, if Landlord threatens or actually breaches this provision, Franchisor shall be entitled to all remedies available to Franchisor at law or in equity, including, without limitation, injunctive relief.
10. Landlord agrees that: (a) Franchisor has solely granted to Franchisee the right to use Franchisor's proprietary trade name, trademarks, service marks logos, insignias, slogans, emblems, symbols, designs and indicia of origin (collectively the "Marks") at the Premises under the terms of the Franchise Agreement; and (b) Franchisor has not granted any rights or privileges to Landlord to use the Marks at the Premises or anywhere else; and (c) Landlord's unauthorized use of the Marks during or after the term of the Lease shall cause irreparable harm to Franchisor and Franchisor's remedy at law will be inadequate. Therefore, if Landlord threatens or actually breaches this provision, Franchisor shall be entitled to all remedies available to Franchisor at law or in equity, including, without limitation, injunctive relief.
11. Franchisor, along with its successors and assigns, is an intended third party beneficiary of the provisions of this Addendum.
12. Copies of any and all notices required or permitted hereby or by the Lease shall also be sent to Franchisor at 12700 Park Central Drive, Suite 1300, Dallas, Texas 75251 (Attn: General Counsel), or such other address as Franchisor shall specify by written notice to Landlord.
13. Under the Franchise Agreement, any lease for the location of a Corner Bakery Cafe is a subject to Franchisor's approval. Accordingly, the Lease is contingent upon such approval.

14. Landlord has approved for all purposes under the Lease the exterior elevations, exterior fixtures, signage, lighting and other exterior branding components attached to the Lease as Exhibit X-1 hereto (the "Final Branding Plan") and the schematic drawings/floor plans attached to the Lease as Exhibit X-2 (the "Preliminary Schematic Drawing(s)) of the improvements which Tenant intends to be constructed in the Premises by Tenant as part of Tenant's Work. Landlord may not object to (nor shall Tenant be required to revise) any portion of the Tenant's plans and specifications which is in conformity with either the Final Branding Plan or the Preliminary Schematic Drawings. Landlord recognizes that Tenant may wish to construct the Tenant's Work with a unique design or appearance to further its "Corner Bakery Cafe" brand identity as further set forth on Tenant's plans and specifications and Landlord agrees not to unreasonably withhold its approval for such unique design or appearance.

WITNESS the execution hereof under seal.

LANDLORD:

FRANCHISEE:

DATE: _____

DATE: _____

Subscribed and sworn to before me this ____ day of _____, ____.

Subscribed and sworn to before me this ____ day of _____, ____.

Notary Public

Notary Public

My Commission expires: _____

My Commission expires: _____

EXHIBIT D

FRANCHISE AGREEMENT

CORNER BAKERY CAFE FRANCHISE AGREEMENT

Franchisee

Effective Date

Franchised Location

**CORNER BAKERY CAFE FRANCHISE AGREEMENT
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CORNER BAKERY CAFE FRANCHISE AGREEMENT

This Franchise Agreement ("Agreement") is made as of this ____ day of _____, 2012 ("Effective Date") between CBC Restaurant Corp. ("CBC," "we" or "us"), a Delaware corporation, and _____ [entity name in Bold] ("you" or "your"), a(n) _____.

RECITALS

CBC, as the result of the expenditure of time, skill, effort and money, has developed and owns a unique and distinctive system ("System") relating to the establishment and operation of bakery café style restaurants that operate under the name Corner Bakery Cafe® ("Corner Bakery Cafes").

The distinguishing characteristics of the System include, without limitation: uniform and distinctive exterior and interior design and layout, including specially designed décor and furnishings; special recipes and menu items; procedures and techniques for food and beverage preparation and service; automated management information and control systems for inventory controls, cash controls and sales analysis; technical assistance and training through course instruction and manuals; and advertising and promotional programs. We may change, improve and further develop the System from time to time.

We identify the System by means of the "Corner Bakery Cafe®" name and mark and certain other names, marks, logos, insignias, slogans, emblems, symbols, designs and indicia of origin (collectively, "Marks") that we have designated, or may in the future designate, for use with the System. We and/or our affiliates may modify the Marks used to identify the System, including the principal Marks, from time to time.

We continue to develop and use (and control the use of) the Marks in order to identify to the public the source of services and products marketed under the Marks and the System and to represent the System's high standards of quality, appearance and service.

You would like the opportunity, subject to the terms and conditions of this Agreement, to obtain a license to use the System in connection with the operation of a franchised Corner Bakery Cafe ("Franchised Cafe") at the location specified in Appendix A ("Franchised Location") and to receive training and other assistance provided by us in connection with your development and operation of the Franchised Cafe.

You understand and acknowledge the importance of our high and uniform standards of quality, operations and service and the necessity of developing and operating the Franchised Cafe in strict conformity with this Agreement and the Corner Bakery Cafe Operations Manual ("Manual").

We are willing to grant a license to you to operate the Franchised Cafe at the Franchised Location, subject to the terms and conditions of this Agreement.

NOW THEREFORE, in consideration of our grant to you of the right to operate a Franchised Cafe at the Franchised Location during the term of this Agreement, as well as the mutual covenants, agreements and obligations set forth below, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. GRANT OF RIGHTS

A. Grant

(1) Subject to the terms and conditions of this Agreement, we hereby grant to you the right ("Franchise") to operate continuously the Franchised Cafe at the Franchised Location and to use the Marks and the System in the operation of the Franchised Cafe during the term of this Agreement.

(2) You accept the obligation to operate continuously the Franchised Cafe at the Franchised Location for the term of this Agreement. You may not operate the Franchised Cafe at any location other than the Franchised Location and may not relocate the Franchised Cafe without our prior written consent, which we may withhold in our sole discretion. If we approve a relocation of the Franchised Cafe, we may charge you for all reasonable charges actually incurred by us in connection with our consideration of your relocation request. If we approve your relocation request, within six months after you receive our written notice of approval, you must relocate and commence operations of the Franchised Cafe at the new site. We will not extend the term of this Agreement if you relocate the Franchised Cafe.

(3) You agree, at all times, to faithfully, honestly and diligently perform your obligations under this Agreement, that you will continuously exert your best efforts to promote and enhance the business of the Franchised Cafe and that you will not engage in any other business or activity that may conflict with your obligations under this Agreement, except the operation of other Corner Bakery Cafes or other restaurants that are franchised by CBC or our affiliates.

B. Protected Area and Limited Exclusivity

(1) Except as reserved in Section 1.B.(2), provided you are not in material uncured default of this Agreement, during the term of this Agreement, we and our affiliates will not operate, or license others to operate, Corner Bakery Cafes within the geographic area described on Appendix A ("Protected Area"). The restrictions contained in this Section 1.B.(1) do not apply to Corner Bakery Cafes in operation or under lease, construction or other commitment to open in the Protected Area as of the Effective Date of which we have provided you with prior written notice.

(2) The System (including the products sold under the Marks) has been developed, and is designed, to function effectively in a wide variety of retail environments, many of which are not practically available to you. Accordingly, we reserve the rights to: (a) operate, and license others to operate, restaurants identified in whole or in part by the Marks and/or utilizing the System in the Protected Area that are located in gas stations or convenience stores, transportation facilities, including airports, train stations, subways and rail and bus stations, military bases and government offices, professional sports facilities, including stadiums and arenas, amusement parks, zoos, convention centers, car and truck rest stops, travel centers, educational facilities, recreational theme parks, hospitals, business or industrial foodservice venues, venues in which foodservice is or may be provided by a master concessionaire or contract foodservice provider, Indian reservations, casinos and any similar captive market location not reasonably available to you; (b) award national, regional or local licenses to third parties to sell products under the Marks in foodservice facilities primarily identified by the third party's trademark; (c) merchandise and distribute products identified by the Marks in the Protected Area through any method or channel of distribution other than through the operation of a restaurant or catering services; (d) sell and distribute products identified by the Marks in the Protected Area to restaurants other than restaurants identified by the Marks, provided that those restaurants are not licensed to use the Marks in connection with their retail sales; (e) sell products and services through other channels of distribution, including the Internet, wholesale, mail order and catalog; (f) operate, and license others to operate, during the term of this Agreement, restaurants identified in whole or in part by the Marks at any location outside of the Protected Area; (g) operate, and license others to operate, after this Agreement terminates or expires, restaurants identified in whole or in part by the Marks at any location, including locations inside the Protected Area; (h) operate, and license others to operate, at any location, including locations inside the Protected Area, during or after the term of this Agreement, any type of restaurant other than a restaurant identified in whole or in part by the Marks; (i) develop and own other franchise systems for the same or similar products and services using trade names and trademarks other than the Marks; and (j) purchase, be purchased by, merge or combine with, businesses that directly compete with Corner Bakery Cafes.

C. Catering Services

(1) You must participate in the Corner Bakery Cafe Catering Program and provide the catering services designated by us from the Franchised Cafe to customers located within your Protected

Area subject to your obligation to follow our procedures and menu requirements, purchase all supplies, products and ingredients through our approved and designated suppliers and otherwise follow the Manual as to the catering services. You will need to purchase catering equipment, including a vehicle, as specified in the Manual before you open your Franchised Cafe.

(2) During the term of this Agreement, you have the exclusive right to directly solicit catering customers and provide catering services from the Franchised Cafe only within the Protected Area. You may not directly solicit catering customers or provide catering services outside of the Protected Area unless you obtain our prior written permission. "Direct solicitation" includes, but is not limited to, solicitation in person, by telephone, by mail, by e-mail, through the Internet or other electronic means, and by distribution of brochures, business cards or other materials. If any of your advertising for catering services within the Protected Area is in media that will or may reach a significant number of persons outside of the Protected Area, you must notify us in advance and obtain our prior written consent. We may establish rules and policies from time to time regarding catering advertising.

(3) We may, in our sole discretion, grant written permission to you to directly solicit catering customers and provide catering services in a geographic area adjacent to the Protected Area that we have not assigned as a protected area of another Corner Bakery Cafe ("Extended Catering Area"). Upon receipt of written notice from us, you agree to stop directly soliciting catering customers and providing catering services in the Extended Catering Area and you shall provide us with all customer information that you have acquired relating to that area. You will not have any rights of first refusal to any open area.

(4) If you, or your affiliate, are a party to an Area Development Agreement with us, during the term of that Agreement, you also will have the exclusive right to directly solicit catering customers and provide catering services within any portion of your Development Area (as defined in the Area Development Agreement) that we have not assigned as a protected area of another Corner Bakery Cafe. Upon the expiration or earlier termination of the Area Development Agreement, you will no longer have the right to directly solicit catering customers or provide catering services within the Development Area.

D. Forms of Agreement. You acknowledge that we intend to enter into agreements with other franchisees that may contain provisions, conditions and obligations that differ from those contained in this Agreement. The existence of different forms of agreement and the fact that we and other franchisees may have different rights and obligations do not affect the duties of the parties to this Agreement to comply with the terms of this Agreement.

2. TERM

A. Initial Term

(1) The initial term of this Agreement ("Initial Term") shall begin on the Effective Date and shall expire at midnight on the day preceding the 20th anniversary of the date the Franchised Cafe first opened for business, unless this Agreement is terminated at an earlier date pursuant to Section 18. We shall complete and forward to you a notice, in a form substantially similar to attached Rider 1, to memorialize the date the Franchised Cafe first opened for business.

(2) Notwithstanding the foregoing, if, during the Initial Term, you, through no act or failure to act on your part (except the failure to extend the lease for the Franchised Location through the Initial Term), lose the right to possession of the Franchised Location, the Initial Term shall expire as of the date of the loss of the right to possession. However, if the right to possession is lost through no act or failure to act on your part, you may relocate the Franchised Cafe (without paying any additional initial franchise fee or transfer fee) at your expense, and the Initial Term shall not expire if: (a) we accept the new location; (b) you construct and equip a Corner Bakery Cafe at the new location in accordance with our then-current System standards and specifications; (c) a Corner Bakery Cafe at the new location is open to the public for business within six months after the loss of possession of the Franchised Location; and (d) you reimburse us

for all reasonable expenses actually incurred by us in connection with our consideration of the relocation request and evaluation of the new location.

B. Successor Franchise Agreement. Upon the expiration of the Initial Term, if you meet certain conditions, you will have the option to request the right to remain a franchisee at the Franchised Location for a successor term of 10 years ("Successor Term"). If you desire to remain a franchisee for the Successor Term, you must comply with all of the following conditions prior to and at the end of the Initial Term:

(1) You must give us written notice of your election to sign a Successor Franchise Agreement ("Renewal Notice") not less than six months nor more than 12 months prior to the end of the Initial Term. The date you provide such notice shall be defined as the "Renewal Notice Date." Time is of the essence regarding the Renewal Notice Date. Your failure to provide us the required notice in a timely manner constitutes a waiver by you of your option to remain a franchisee beyond the expiration of the Initial Term. The Successor Term shall commence upon the expiration of this Agreement.

(2) You must enter into an agreement with us whereby you agree, within a specified time period (not to exceed one year from the signing of the Successor Franchise Agreement), to remodel the Franchised Cafe, add or replace improvements, furniture, fixtures, equipment and signage and otherwise modify the Franchised Cafe to reflect the then-current standards and image of the System.

(3) As of the Renewal Notice Date and as of the expiration of this Agreement, you must not: (a) be in default beyond the applicable cure period, if any, of this Agreement or any other agreements with CBC or our affiliates; (b) be in default beyond the applicable cure period, if any, of any real estate lease, equipment lease or financing instrument relating to the Franchised Cafe or any agreement with any vendor or supplier to the Franchised Cafe other than defaults that are immaterial in that they do not adversely affect your ability to operate the Franchised Cafe; and (c) for the 12 months prior to Renewal Notice Date, you must not have been in default beyond the applicable cure period under this Agreement or any other agreements with CBC or our affiliates.

(4) You shall present satisfactory evidence to us that you have the right to remain in possession of the Franchised Location for the Successor Term.

(5) You, all individuals who own an equity interest in you of at least 10% ("Owners"); Principal(s)"), and all guarantors of your obligations shall have executed a general release and a covenant not to sue, in a form satisfactory to us, of any and all claims against us and our affiliates and our respective past and present officers, directors, shareholders, agents and employees, in their corporate and individual capacities, including, without limitation, claims arising under federal, state and local laws, rules and ordinances, and claims arising out of, or relating to, this Agreement, any other agreements between you and us or our affiliates, and your operation of the Franchised Cafe and other Franchised Cafes operated by you.

(6) You shall comply with our then-current qualification and training requirements.

(7) You will be obligated to pay a successor franchise fee equal to 50% of our then-current standard initial franchise fee for a Franchised Restaurant ("Successor Franchise Fee").

(8) Within 60 days after our receipt of your Renewal Notice, we will advise you whether or not you are entitled to remain a franchisee for the Successor Term. If we intend to permit you to remain a franchisee for the Successor Term, our notice will contain preliminary information regarding actions you must take to satisfy our remodeling and training requirements. Your right to remain a franchisee for the Successor Term is subject to your full compliance with all of the terms and conditions of this Agreement through the expiration of the Initial Term, in addition to your compliance with the obligations described in our notice. If we do not intend to permit you to remain a franchisee for the Successor Term, our notice will specify the reasons for rejecting your request, and we will have the right to extend unilaterally the Initial Term of this Agreement as necessary to comply with any applicable laws.

(9) If you exercise your right to remain a franchisee for the Successor Term, we will forward to you a Successor Franchise Agreement for your signature at least 30 days prior to the expiration of the Initial Term. The form of Successor Franchise Agreement will be the form then in general use by us for Corner Bakery Cafes (modified as necessary to reflect the fact that it is a Successor Franchise Agreement) or, if we are not then granting Franchises for Corner Bakery Cafes, that form of agreement as specified by us. The form of Successor Franchise Agreement will likely differ from this Agreement, including, but not limited to, provisions relating to the royalty fees and advertising obligations. You and your ~~Owners~~Principals also must sign any personal guarantees and ancillary agreements required by the Successor Franchise Agreement. Your failure to sign the Successor Franchise Agreement and return it to us with the Successor Franchise Fee prior to the expiration of the Initial Term will be deemed an election by you not to exercise your right to remain a franchisee for the Successor Term and will result in the expiration of this Agreement and the Franchise granted by this Agreement at the end of the Initial Term. Provided that you have timely complied with all of the conditions set forth in this Section 2.B., we will sign the Successor Franchise Agreement and promptly return a fully-signed original to you.

3. DEVELOPMENT OF THE FRANCHISED CAFE

A. Your Responsibility. You assume all cost, liability, expense, and responsibility for constructing, equipping and operating the Franchised Cafe in accordance with our standards at the Franchised Location. If the Franchised Location has not been designated as of the Effective Date, then you must follow the site selection procedures set forth in Sections 3.B below.

B. Site Selection

(1) You should not make any binding commitments to acquire any interest in any site for the Franchised Cafe until we have accepted that site in writing. We may provide the following site selection assistance to: (a) our site selection criteria and, as you may request, a reasonable amount of consultation with respect thereto; and (b) such on-site evaluation as we may deem advisable as part of our evaluation of your request for acceptance of a site.

(2) You must submit a site application to us that contains the information that we reasonably require for each proposed site that you reasonably believe conforms to our site selection criteria ("Site Application"). Each Site Application shall include, among other things, a description of the proposed site, a market feasibility study for the proposed site, a letter of intent (or other written confirmation demonstrating your ability to acquire the proposed site) and a summary of how the site meets our site selection criteria. Periodically, we may change our site selection criteria, which may include demographic characteristics, traffic count and patterns, parking, character of the neighborhood, competition from other businesses in the area, the proximity to other businesses (including restaurants operated or franchised by CBC or our affiliates), the nature of other businesses in proximity to the site and other commercial characteristics (including the purchase price, rental obligations and other lease terms for the proposed site) and the size, appearance, other physical characteristics and a site plan of the premises.

(3) You acknowledge that, in order to preserve and enhance the reputation and goodwill of all Corner Bakery Cafes and the goodwill of the Marks, each Corner Bakery Cafe must be properly developed, operated and maintained. Accordingly, you agree that we may refuse to accept a site for a proposed Franchised Cafe unless you demonstrate sufficient financial capabilities, in our sole judgment, applying standards consistent with criteria we use to establish Corner Bakery Cafes in other comparable market areas, to develop, operate and maintain the proposed Franchised Cafe properly. To this end, you shall furnish to us such financial statements and other information regarding you and the development and operation of the Franchised Cafe, including, without limitation, investment and financing plans for the Franchised Cafe, as we reasonably may require.

(4) Within 30 days after our receipt of the completed Site Application (which shall include all information and materials relating to a proposed site that we reasonably request), we will advise you in writing whether we have accepted or refused to accept the proposed site. If we do not respond within

that time period, we will be deemed to have refused to accept the proposed site. Our acceptance or refusal to accept a proposed site may be subject to reasonable conditions as determined in our sole discretion. If we accept a site, we shall designate the site as the Franchised Location in Appendix A.

(5) You agree that our acceptance of a site for the Franchised Cafe and any information communicated to you regarding our site selection criteria for Corner Bakery Cafes does not constitute a warranty or representation of any kind, express or implied, as to the suitability of any site for the Franchised Cafe or for any other purpose. Our acceptance of a site is not a representation or a promise by us that the Franchised Cafe at the site will achieve a certain sales volume or a certain level of profitability. Similarly, our acceptance of one or more sites and our refusal to accept other sites is not a representation or a promise that the accepted site will have a higher sales volume or be more profitable than a site that we did not accept.

(6) You agree that your decision to develop and operate the Franchised Cafe at the Franchised Location is based solely on your own independent investigation of the suitability of that site for a Franchised Cafe. We assume no liability or responsibility for: (a) evaluation of the soil of the Franchised Location for hazardous substances; (b) inspection of any structure at the Franchised Location for asbestos or other toxic or hazardous materials; (c) compliance with the Americans with Disabilities Act ("ADA"); or (d) compliance with any other applicable law. It is your sole responsibility to obtain satisfactory evidence and/or assurances that the Franchised Location (and any structures thereon) are free from environmental contamination and in compliance with the requirements of the ADA.

C. Acquisition of the Franchised Location, Leasing

(1) Within 30 days after we accept the Franchised Location, you must lease, sublease or purchase the Franchised Location. Before you sign any lease, sublease or purchase agreement, you must deliver a copy to us for our approval. If you propose to lease or sublease the Franchised Location, you shall provide us with a copy of the proposed lease or sublease within 30 days after we accept the Franchised Location. You agree that any lease or sublease for the Franchised Location must: (a) in form and substance, be satisfactory to us; (b) include provisions such as those set forth in our form of Addendum to Lease (the current form of which is attached as Appendix E), as modified from time to time; (c) be for an aggregate term of (at least) 20 years in a combination of initial term and renewals; (d) contain terms and conditions and payments that are commercially reasonable in our opinion; and (e) include any other provisions as we may require from time to time. The lease or sublease shall not contain any covenants or other obligations that would prevent you from performing your obligations under this Agreement or any agreement with us.

(2) You must deliver to us a copy of the fully signed lease, sublease or purchase contract within five days after its execution. You may not begin construction of the Franchised Cafe at the Franchised Location until you have delivered to us a copy of the fully signed lease, sublease or purchase agreement. You may not amend or modify the lease without our prior written approval and you must provide us with any fully signed lease addenda within five days after execution.

(3) Our approval of the lease, sublease or purchase contract does not constitute a warranty or representation of any kind, express or implied, as to its fairness or suitability or as to your ability to comply with its terms, and we do not assume any liability or responsibility to you or to any third parties due to such approval.

D. Permitting/Licensing. You shall promptly begin the permitting, licensing and approval process to ensure that construction of the Franchised Cafe commences within 60 days after the date the lease or sublease is fully executed or the purchase of the Franchised Location is consummated. If permitting and licensing is anticipated to take longer than 60 days, you shall advise us in writing of the date on which you anticipate obtaining such permits and licenses and the reasons for the extended time period.

E. Plans and Specifications.

(1) ~~If the Franchised Cafe is one of the first three Corner Bakery Cafes that you develop, We will provide you with a space plan layout ("Space Plan") and exterior signage plan ("Signage Plan"). During the preparation of "~~for the Franchised Cafe. If the Franchised Cafe is one of the first three Franchised Cafes that you or your Space Plans and Signage Plans, we will provide you and your respective architect/designer with design training and criteria so that you will be prepared to complete the Space Plan and Signage Plan on all units that you develop after your third Franchised Cafe, affiliates have developed, ~~then we will prepare the Space Plan and Signage Plan for additional Corner Bakery Cafes developed by you for a fee at no cost to you. If the Franchised Cafe is developed after your third Franchised Cafe, then you must pay our then-current fee for preparation of the Space Plan and Signage Plan as periodically specified in the Manual. You must submit all Space Plans and Signage Plans proposed by you to us electronically in Auto-Cad V. 2004 software (or later) and PDF for approval. We reserve the right to make any changes to the Space Plans or Signage Plans as submitted. We shall provide approval, or approval with changes, within 10 days after we receive the Space Plans and Signage Plans.~~

(2) Upon completion and approval of the Space Plan and Signage Plans for the Franchised Cafe, you shall be responsible for developing construction plans and specifications and design specifications ("Plans and Specifications") by a licensed architect and engineer for building permit submittal. You shall submit to us your final Plans and Specifications for our acceptance before commencing construction of the Franchised Cafe. A licensed architect must prepare all final Plans and Specifications. All prototype and modified Plans and Specifications for the Franchised Cafe remain our sole and exclusive property, and you may claim no interest in those modified plans and specifications.

(3) You acknowledge that the design and materials used in the construction of Corner Bakery Cafes is important to us, and you agree to adhere to our design and construction specifications and to use the materials and suppliers we require. You are solely responsible for developing the Franchised Cafe, for all expenses associated with it and for compliance with the requirements of any applicable federal, state or local law, code or regulation, including those concerning the ADA or similar rules governing public accommodations for persons with disabilities. All development and any signage must be in accordance with the Space Plans, Signage Plans and Plans and Specifications we have approved and must comply with all applicable laws, ordinances and local laws, codes, and regulations. Our review and acceptance of your Plans and Specifications is not designed to assess compliance with federal, state or local laws, codes, and regulations, including the ADA, as compliance with such laws is your sole responsibility. At our request, you must submit all revised or "as built" Plans and Specifications.

F. Construction of the Franchised Cafe.

(1) We will provide a construction orientation program for you and your general contractor for the first Franchised Cafe that you develop. The orientation shall be conducted in a manner and location deemed appropriate by us and shall review the construction standards and procedures commonly employed to construct a Corner Bakery Cafe. You may request additional construction orientation at a fee as periodically specified in the Manual.

(2) Unless you and we mutually agree otherwise, you must begin construction of the Franchised Cafe by the later of: (a) 60 days after you have leased, subleased or purchased the Franchised Location; or (b) upon receipt of all necessary permits and licenses, provided such permits were promptly requested. We reserve the right to require that you obtain our acceptance of your choice of general contractor. You must procure all insurance in accordance with Section 5 before you commence construction of the Franchised Cafe. You must obtain lien waivers from your contractor and all subcontractors who furnish any materials or services in the construction of the Franchised Cafe.

(3) You must provide us with progress reports during the course of construction in a format and at those times that are acceptable to us. During the course of construction, you shall (and shall cause your architect, engineer, contractors, and subcontractors to) cooperate fully with us and our designees for the purpose of permitting us and our designees to inspect the Franchised Cafe in order to determine whether construction is proceeding according to our standards. Without limiting the generality of the

foregoing, you and your architect, engineer, contractors and subcontractors shall: (a) supply us or our designees with samples of construction materials, test borings, core samples, due diligence environmental studies, supplies, equipment and other material and reports, if any such tests, studies or reports indicate there may be material problems or as we or our designees may request; and (b) afford our representatives and our designees access to the Franchised Cafe and to the construction work in order to permit us and our designees to carry out their inspections. Such inspections shall be at our expense, except for inspections made upon your request, which shall be at your expense.

G. Acquisition of Necessary Furnishings, Fixtures, Equipment and Signage.

(1) You agree to use in the development and operation of the Franchised Cafe only the fixtures, furnishings, equipment signage, emblems, lettering, logos and display materials ("FFE&S") that we have approved for Corner Bakery Cafes in writing from time to time as meeting our specifications and standards for quality, design, appearance, function and performance.

(2) You agree to purchase or lease only such types, brands and models of FFE&S and supplies that we approve for Corner Bakery Cafes as meeting our standards and specifications, including standards and specifications for quality, design, warranties, appearance, function and performance. You may purchase or lease approved types, brands or models of FFE&S and supplies only from suppliers designated by us. From time to time, we may modify the list of approved types, brands, models and/or suppliers, and you may not, after receipt of notice of such modification, reorder any type, brand or model from any supplier that is no longer approved. If you propose to purchase any FFE&S or supplies of a type, brand or model, or propose to purchase from a supplier that we have not previously approved, you must notify us and submit to us such information as we may request and comply with our procedures for approving alternate suppliers.

H. Limitation of Liability. Notwithstanding our right to approvedevelop the SpaceSpan Plan, and Signage Plan and ~~for the Franchised Cafe, approve the~~ Plans and Specifications for the Franchised Cafe and our right to inspect the construction work at the Franchised Cafe, we and our designees shall have no liability or obligation with respect to the Franchised Locations~~Location~~, the design or construction of the Franchised Cafe or the FFE&S to be acquired; our rights being exercised solely for the purpose of ensuring compliance with the terms and conditions of this Agreement. Our inspections shall not be construed as any express or implied representation or warranty that the Franchised Cafe comply with any applicable laws, codes or regulations (including the ADA or any other federal, state, or local law or ordinance regulating standards for the access to, use of, or modifications of, buildings for any persons whose disabilities are protected by law) or that the construction of the Franchised Cafe is sound or free from defects.

I. Final Inspection, Payment of the Initial Franchise Fee and Opening Date.

(1) You must complete construction of the Franchised Cafe within ~~420~~¹⁵⁰ days after the start of construction, unless we agree otherwise. The requirement to complete construction of the Franchised Cafe includes obtaining all required construction and occupancy licenses, permits and approvals, developing the Franchised Location (including all outdoor features, patios, and landscaping of the Franchised Location), purchasing all required catering equipment, installing all required FFE&S, and doing all other things as may be required pursuant to this Agreement or by practical necessity to have the Franchised Cafe ready to open for business.

(2) You shall notify us in writing at least 40 days prior to the date you expect construction and/or renovation to be completed and a certificate of occupancy to be issued ("Occupancy Notice") for the Franchised Cafe. You must pay the Initial Franchise Fee specified in Section 4.A. to us when you submit the Occupancy Notice. After our receipt of the Occupancy Notice and the Initial Franchise Fee, we reserve the right to conduct a final inspection of the Franchised Cafe to determine if you have complied with this Agreement in connection with the development of the Franchised Cafe including, without limitation, the final Space Plan, Signage Plan and Plans and Specifications. We shall not be liable for delays or loss

occasioned by our inability to complete our investigation and to make a determination within this 40-day period. If requested by us, you shall submit a copy of the certificate of occupancy to us.

(3) You shall not open the Franchised Cafe for business without our express written authorization, which will not be granted unless you have satisfied the conditions contained in Section 3.K.J. You may not open the Franchised Cafe for at least 24 days after the date construction is completed so that your employees may be trained in the management and operation of the Franchised Cafe. You must open within 45 days after the date construction is completed and all necessary approvals have been obtained. Time is of the essence in the construction and opening of the Franchised Cafe, and failure to comply with all deadlines relating thereto constitutes a material breach or default of this Agreement. Any extensions of time are subject to our approval, which we may withhold at our discretion. You must provide a written report to us in a form specified by us detailing all construction and development costs and expenses for the Franchised Cafe within 30 days after the opening of the Franchised Cafe. You acknowledge and agree that we will share these costs and expenses with other existing and prospective franchisees and developers of Corner Bakery Cafes.

J. Opening of the Franchised Cafe. We will not authorize the opening of the Franchised Cafe unless all of the following conditions have been met:

(1) You are not in material default under this Agreement or any other agreements with us; you are not in default beyond the applicable cure period under any real estate lease, equipment lease or financing instrument relating to the Franchised Cafe (other than defaults that are immaterial in that they do not adversely affect your ability to open or operate the Franchised Cafe); you are not in default beyond the applicable cure period with any vendor or supplier to the Franchised Cafe (other than defaults that are immaterial in that they do not adversely affect your ability to open or operate the Franchised Cafe); and for the previous six months, you have not been in material default beyond the applicable cure period under any agreement with us;

(2) We have determined that the Franchised Cafe has been constructed and/or renovated and equipped substantially in accordance with the requirements of this Agreement including, without limitation, the Space Plan, the Signage Plan, and the Plans and Specifications;

(3) You have hired and trained a staff in accordance with the requirements of this Agreement;

(4) You, your Operating Partner (as defined in Section 13.G.), the General Manager and at least three Managers (one of whom may be a Shift Supervisor if approved by us) of the Franchised Cafe have completed our initial training program;

(5) You have paid the Initial Franchise Fee (as defined in Section 4.A.) and any other amounts then due to us;

(6) You have signed this Agreement and all other agreements including, but not limited to, the electronic funds transfer documents described in Section 4.F as required by us;

(7) You have obtained a certificate of occupancy and any other required health, safety or fire department certificates; and

(8) You have provided to us copies of certificates for all insurance policies required by Section 11 or such other evidence of insurance coverage and payment of premiums as we reasonably may request.

4. FEES

A. Initial Franchise Fee. Simultaneously with your execution of this Agreement and no later than 30 days before you open the Franchised Cafe, you shall pay to us an initial franchise fee in the amount specified in Appendix A ("Initial Franchise Fee"). If the Franchised Cafe is the first Franchised Cafe that you have developed pursuant to a Development Agreement with us and you signed this Agreement when you signed the Development Agreement, then you must pay the Initial Franchise Fee to us no later than 3040 days before you open the Franchised Cafe. You acknowledge and agree that the Initial Franchise Fee is paid in consideration of our grant of this Franchise to you, it is fully earned at the time paid, and it is not refundable for any reason whatsoever.

B. Royalty Fee

(1) You agree to pay us a continuing weekly royalty fee in the amount of 5% of Gross Sales ("Royalty Fee") for each Reporting Period as designated by us. A "Reporting Period" shall be defined as each one week period commencing on Monday and ending on Sunday, or such other period as we shall designate from time to time.

(2) The term "Gross Sales" shall include all revenue from the sale of all services and products and all other income of every kind and nature (including stored value gift cards and gift certificates when redeemed but not when purchased, on-premise sales, off-premise sales, catering sales, and any other type of sale) related to the Franchised Cafe, whether for cash or credit and regardless of collection in the case of credit. Gross Sales shall not include: (a) any bona fide documented federal, state, or municipal sales taxes collected by you from customers and paid by you to the appropriate taxing authority; (b) the sale of food or merchandise for which refunds have been made in good faith to customers; (c) the sale of fixtures, furnishings, equipment, signage, emblems, lettering, logos, and display materials ("FFE&S") used in the operation of the Franchised Cafe; (d) customer promotional discounts approved by us; and (e) employee meal discounts.

C. Marketing Expenditures. You also shall spend and/or contribute for marketing. The exact amount of the marketing fees to be spent and/or contributed by you and the allocation of the marketing expenditures as of the date of this Agreement are set forth in Section 6 and Appendix C.

D. Late Charges and Interest. Any payment or report not actually received by us on or before the date on which such payment is due shall be deemed as late. To compensate us for the increased administrative expense of handling late payments, we have the right to charge a \$500 late charge for each delinquent payment, due upon making the delinquent payment. In addition to such late charge, you shall pay interest to us on such late payment from the date it was due until paid at the rate of 18% per annum, or the maximum rate permitted by law, whichever is less. Entitlement to such interest shall be in addition to any other remedies we may have. You agree that this section does not constitute our agreement to accept payments after they are due or a commitment by us to extend credit to you or otherwise finance the operation of the Franchised Cafe.

E. No Right of Offset. You have no right of offset against any payments due to us under this Agreement. You shall not withhold any payments due to us under this Agreement for any reason.

F. Payment By Pre-Authorized Bank Transfer

(1) You must participate in our electronic funds transfer program authorizing us to utilize a pre-authorized bank draft system. You agree to sign and complete the Authorization Agreement in Appendix B, and/or such other documents as we may reasonably require from time to time, to authorize and direct your bank or financial institution to pay and deposit directly to our account, and to charge to your business checking account ("Electronic Depository Transfer Account" or "EDTA"), the amount of the Royalty Fees, marketing fees and contributions, and other amounts due and payable by you pursuant to this Agreement (such withdrawals shall be defined as a "Sweep").

(2) We shall have the authority to Sweep the EDTA at anytime; however, we agree not

to Sweep the EDTA more than once each week so long as you are not in default of this Agreement or any other agreement with CBC or our affiliates. We have the right to review your sales numbers within three business days following the close of a Reporting Period. As early as the first business day thereafter, we shall calculate the Royalty Fee and any marketing contributions and fees set forth in Section 6 due for that Reporting Period and Sweep such amounts and any other amounts due under this Agreement directly from the EDTA. You must pay all costs and expenses of establishing and maintaining the EDTA, including transaction fees and wire transfer fees. You agree to maintain at all times sufficient funds in the EDTA for such Sweeps. You agree not to terminate our right to withdraw funds from the designated EDTA during the term of this Agreement without our prior written consent.

G. **Partial Payments.** No payment by you or acceptance by us of any monies under this Agreement for a lesser amount than due shall be treated as anything other than a partial payment on account. Your payment of a lesser amount than due with an endorsement, statement or accompanying letter to the effect that payment of the lesser amount constitutes full payment shall be given no effect, and we may accept the partial payment without prejudice to any rights or remedies we may have against you. Acceptance of payments by us other than as set forth in this Agreement shall not constitute a waiver of our right to demand payment in accordance with the requirements of this Agreement or a waiver by us of any other remedies or rights available to us pursuant to this Agreement or under applicable law. Notwithstanding any designation by you, we shall have sole discretion to apply any payments by you to any of your past due indebtedness for Royalty Fees, marketing contributions and fees, purchases from CBC or our affiliates, interest or any other indebtedness. We have the right to accept payment from any other entity as payment by you. Acceptance of that payment by us will not result in that other entity being substituted for you.

H. **Collection Costs and Expenses.** You agree to pay to us on demand any and all costs and expenses incurred by us in enforcing the terms of this Agreement, including, without limitation, collecting any monies owed by you to us. These costs and expenses include, but are not limited to, costs and commissions due a collection agency, reasonable attorneys' fees (including attorneys' fees for in-house counsel employed by CBC or our affiliates and any attorneys' fees incurred by us in bankruptcy proceedings), costs incurred in creating or replicating reports demonstrating Gross Sales of the Franchised Cafe, court costs, expert witness fees, discovery costs and reasonable attorneys' fees and costs on appeal, together with interest charges on all of the foregoing.

I. **Letter of Credit.** We may require you to provide a letter of credit from a national bank and on terms set forth in the Manual equal to 150% of all fees (including Royalty Fees, marketing contributions and fees, interest and other payments to us) anticipated to be due annually under all agreements between the parties in the event of any failure by you to pay timely all fees due. You shall use your best efforts to obtain the letter of credit within 15 days after receipt of our request and provide a copy to us.

5. RECORDS AND REPORTS

A. **Recordkeeping.** You shall keep and maintain, in accordance with any procedures set forth in the Manual, complete and accurate books and records pertaining to the Franchised Cafe sufficient to report fully to us. Your books and records shall be kept and maintained using generally accepted accounting principles ("GAAP"), if you use GAAP in any of your other operations, or using other recognized accounting principles applied on a consistent basis that accurately and completely reflect your financial condition. You shall preserve all of your books, records and state and federal tax returns pertaining to the Franchised Cafe for at least five years after the later of preparation or filing (or such longer period as may be required by any governmental entity) and make them available and provide duplicate copies to us within five days after our written request.

B. **Periodic Reports.** You must prepare and submit to us the following reports in the format specified by us:

(1) No later than the first business day immediately following the end of the applicable Reporting Period, a report of Gross Sales for the preceding Reporting Period.

(2) Within 15 days after the expiration of each calendar month or four-week or five week fiscal period (4a) a profit and loss statement, balance sheet and fiscal-year to date profit and loss statement; and (2b) a report of Field Marketing expenditures (as defined in Section 6.G.) for the preceding month.

(3) At the time of filing with taxing authorities, copies of all sales tax returns for the Franchised Cafe.

(4) Within 30 days of our request, such other forms, reports, records, information and data as we may reasonably designate, including sales mix data, food and labor cost reports, sales and income tax statements and returns, in the form and at the times and places reasonably required by us.

(5) Within 90 days after the expiration of each fiscal year, a reviewed or audited year-end balance sheet and income statement and statement of cash flow of the Franchised Cafe for such year, reflecting all year-end adjustments and accruals. Your treasurer or chief financial officer must sign your annual financial statements, attesting that the financial statements fairly present your financial position and the results of operations of the Franchised Cafe during the period covered. We shall have the right, in our reasonable discretion, to require that you, at your expense, submit audited financial statements prepared by a certified public accounting firm acceptable to us for any fiscal year or any period or periods of a fiscal year.

(6) If you are or become a publicly-held entity (i.e., an entity that has a class of securities traded on a recognized securities exchange or quoted on the inter-dealer quotation sheets known as the "pink sheets"), in accordance with other provisions of this Agreement, you shall send to us copies of all reports (including responses to comment letters) or schedules that you file with the U.S. Securities and Exchange Commission (certified by your chief executive officer to be true, correct, complete and accurate) and copies of any press releases you issue, within three days of the filing of those reports or schedules or the issuance of those releases.

(7) All reports shall use our then-current standard chart of accounts. The information in each report and financial statement must be complete and accurate and signed by your Operating Partner (as defined in Section 13.F.) or an officer of yours. We reserve the right to publish or disclose information that we obtain under this section in any data compilations, collections, or aggregations that we deem appropriate, in our sole discretion, so long as we do not disclose information relating to performance of your individual Franchised Cafe, unless such disclosure is required by law or court order. We strongly encourage you to use the reporting periods and fiscal year that we use.

(8) You acknowledge and agree that we may share information from reports that you provide to us with other prospective and existing Corner Bakery Cafe franchisees.

C. Audit Rights

(1) We or our designated agents shall have the right at all reasonable times to inspect, audit, and copy, at our expense, the statements and reports referenced above and your books, records, and tax returns related to the Franchised Cafe. We also shall have the right, at any time, to have an independent audit made of the statements and reports referenced above and your books, records, and tax returns related to the Franchised Cafe. If an inspection or audit reveals that any payments have been understated in any report to us, then you shall immediately pay to us the amount understated upon demand, in addition to interest from the date such amount was due until paid, at the rate set forth in Section 4.D. If an inspection or audit discloses an understatement in any report of 2% or more of Gross Sales for the audit period, then you shall, in addition, reimburse us for any and all costs and expenses connected with the inspection or audit (including, without limitation, travel, lodging and wage expenses and reasonable accounting and legal costs). The foregoing remedies shall be in addition to any other remedies that we may have under this Agreement.

(2) If you fail to provide us on a timely basis with the records, reports and other information required by this Agreement or, upon our request, with copies of the same, we or our designee shall have access at all reasonable times (and as often as necessary) to your books and records for the

purpose, among other things, of preparing the required records, reports and other information. You promptly shall reimburse us or our designee for all costs and expenses associated with our obtaining such records, reports or other information.

D. Technology Requirements for Reporting Data

(1) You agree to purchase or lease, at your expense, such computer hardware and software, required dedicated telephone and power lines, DSL or better transmission lines, modems, printers, and other computer-related accessories and peripheral equipment as we may specify for the purpose of, among other functions, recording financial and customer data and communicating with us. We may require you to use proprietary software and any other computer systems, which we may prescribe from time to time, and you agree to sign such agreements as we may require in connection with those systems. You must purchase and maintain all required equipment to offer free wireless Internet access to your customers. We may prescribe a specific point of sale system or other proprietary computer hardware and software systems, which you agree to purchase. You must record all sales at the Franchised Cafe on a computerized point of sale system that is fully compatible with our computer system and that includes an information interface capability to communicate electronically with our computer system to provide us with continuous transaction level point of sale data.

(2) You must provide such assistance as may be required to connect your computer system and point of sale system with our computer system. We shall have the right to retrieve transaction level data through point of sale electronic reporting as well as time of order to time of delivery data, customer data and such other information from your computer system as we deem necessary or desirable, and you agree to fully cooperate with such efforts. You will be required to provide us with all of the data that Corner Bakery Cafes operated by us and our affiliates provide to us in a format readily usable by us. All data pertaining to, derived from, or displayed at the Franchised Cafe (including without limitation data pertaining to or otherwise about Franchised Cafe customers) is and shall be our exclusive property, and we hereby grant you a royalty-free non-exclusive license to use that data during the Initial Term of this Agreement and any Successor Term.

(3) You agree that all data that you collect from customers and potential customers in connection with the Franchised Business ("Customer Data") is deemed to be owned exclusively by us, and you also agree to provide the Customer Data to us at any time that we request you to do so. You have the right to use Customer Data while this Agreement or a Successor Franchise Agreement is in effect, but only in connection with operating the Franchised Cafe and only in accordance with the policies that we establish from time to time. You may not sell, transfer, or use Customer Data for any purpose other than operating the Franchised Cafe and marketing "Corner Bakery" products and services. However, if you Transfer the Franchised Cafe (as provided in Section 15 below), as part of the Transfer, you may Transfer use of the Customer Data to the buyer for value.

(4) In view of the contemplated interconnection of computer systems and the necessity that such systems be compatible with each other, you agree that you will comply strictly with our standards and specifications for all items associated with your computer system. To ensure full operational efficiency and optimum communication capability among computer systems installed by all Corner Bakery Cafes, you agree, at your expense, to keep your computer systems in good maintenance and repair, and promptly install such additions, changes, modifications, substitutions or replacements to hardware, software, telephone and power lines, and other computer-related facilities, as we direct. In the event we approve your use of a Website (as defined in Section 6.J.), you agree to ensure that the Website is compatible with our Website(s) and capable of any linkages that we may require. Because changes to technology are dynamic and not predictable within the term of this Agreement, and in order to provide for inevitable but unpredictable changes to technological needs and opportunities, you agree: (a) that we will have the right to establish, in writing, reasonable new standards to address new technologies, and to implement those changes in technology into the System; and (b) to abide by our reasonable new standards as if this Section 6.D.

E. **Privacy Laws.** You agree to abide by all applicable laws pertaining to the privacy of customer, employee, and transactional information ("Privacy Laws"). You agree to comply with our standards and policies pertaining to Privacy Laws. If there is a conflict between our standards and policies pertaining to Privacy Laws and actual applicable law, you shall: (a) comply with the requirements of applicable law; (b) immediately give us written notice of said conflict; and (c) promptly and fully cooperate with us and our counsel in determining the most effective way, if any, to meet our standards and policies pertaining to Privacy Laws within the bounds of applicable law. You agree not to publish, disseminate, implement, revise, or rescind a data privacy policy without our prior written consent.

6. **MARKETING AND PROMOTION**

A. **Grand Opening Marketing.** At least 60 days prior to the opening of the Franchised Cafe, you must submit a Grand Opening Required Spending Plan ("Grand Opening Plan") to us outlining your proposal for grand opening marketing and promotion of the Franchised Cafe. You shall not implement the Grand Opening Plan unless and until we have consented to the Plan in writing. You agree to modify the Grand Opening Plan as requested by us and, thereafter, no substantial changes shall be made to the Grand Opening Plan without our advance written consent. In addition to the Field Marketing expenditure requirements set forth in Section 6.G., you shall, during the period beginning 30 days before the scheduled opening of the Franchised Cafe and continuing for ~~12 months~~ 90 days after the Franchised Cafe first opens for business ("Grand Opening Period"), spend at least \$15,000 to conduct grand opening marketing and promotion in authorized advertising media and for authorized expenditures (as defined in Section 6.I.) Within 30 days of each grand opening expense that you incur, you shall submit to us evidence (by invoice and sample, if applicable) of such grand opening marketing and promotional expenditures.

B. **Marketing Contributions and Expenditures.** This Section 6 describes our marketing, public relations and advertising programs; however, we reserve the right to modify these programs and the manner in which the marketing and advertising funds are used for such purposes from time to time, in whole or in part, as we deem necessary. You acknowledge and recognize the value of and the need to develop, enhance, and promote the System and the Marks. You also acknowledge and recognize the importance of the standardization of advertising programs to the furtherance of the goodwill and public image of the System and the Marks. During the Initial Term, you shall have a weekly advertising obligation ("WAO") in an amount not to exceed 4.5% of the Gross Sales of the Franchised Cafe as set forth in this Section 6 and Appendix C. You shall pay, at the same time and in the same manner as the Royalty Fee, that portion of the WAO as we may direct for the Brand Development Fee in accordance with Section 6.C., to a National Marketing Fund in accordance with Section 6.D., and to a Regional Advertising Fund in accordance with Section 6.E. The remainder of the WAO shall be spent for Field Marketing in accordance with Section 6.G. Following written notice to you, we may reallocate and increase the WAO among the Brand Development Fee, the National Marketing Fund, a Regional Advertising Fund and/or your Field Marketing expenditures.

C. **Brand Development Fee.** You shall pay to us a nonrefundable and continuing Brand Development Fee in the amount set forth in Appendix C, as subsequently modified by us, at the same time and in the same manner that you pay the Royalty Fee. The Brand Development Fee shall be used by us to cover the costs of, among other things, creating, maintaining, administering, directing, and preparing menus and other advertising and promotional activities for the benefit of the System. Corner Bakery Cafes operated by us and our affiliates shall pay a Brand Development Fee on the same basis as comparable franchisees. We will not be required to account separately to you for the Brand Development Fees that we collect and expend.

D. **National Marketing Fund**

(1) We have the right to establish and administer the National Marketing Fund for expenses incurred in connection with the creation and development of advertising, marketing, design and public relations, research and related programs, activities and materials that we, in our sole discretion, deem appropriate. Once established, you shall contribute to the National Marketing Fund the nonrefundable amount set forth in Appendix C, as subsequently modified by us, at the same time and in the same manner

that you pay the Royalty Fee. Corner Bakery Cafes owned by us and our affiliates shall contribute to the National Marketing Fund on the same basis as comparable franchisees.

(2) Payments made to the National Marketing Fund shall be used by us or our designees, in the manner we determine in our sole discretion, to develop and execute any, all, none or a combination of the following: (a) advertising ideas, concepts and general plans; (b) menu, merchandising and marketing materials; (c) marketing research and merchandising programs and strategies; (d) advertising and marketing studies, research or services; (e) public relations activities and brochures; (f) advertising strategies and campaigns, including video, audio, electronic and printed advertising materials; (g) promotional ideas, concepts and general plans; (h) design and administration of the Corner Bakery Cafe website; (i) media planning and buying services; (j) menu items and products; (k) collateral creative materials; (l) advertisements, including writing, design, illustration, filming, editing and other preparation of advertising materials; (m) employing advertising and public relations agencies; (n) media programs, including planning, strategy, negotiation, contracting, buying, verifying, modifying and trafficking the programs; (o) administration of the National Marketing Fund and technical and professional advice in connection with the Fund; and (p) other advertising, promotional, public relations, administrative and related purposes. We may furnish you with marketing, advertising and promotional materials that we produce or have produced for a fee, plus any related administrative, shipping, handling and storage charges.

E. Regional Advertising Funds

(1) We have the right, in our sole discretion, to establish one or more regional advertising funds for Corner Bakery Cafes ("Regional Advertising Funds"). If a Regional Advertising Fund is established for a geographical area that includes the Franchised Location, you shall contribute to that Regional Advertising Fund in the amount set forth in Appendix C, as subsequently modified by us. Corner Bakery Cafes operated by us and our affiliates in an area covered by a Regional Advertising Fund shall contribute to the Regional Advertising Fund on the same basis as comparable franchisees.

(2) We or our designee shall direct all advertising, marketing, and public relations programs and activities financed by the Regional Advertising Funds, with sole discretion over the creative concepts, materials and endorsements used in those programs and activities, and the geographic, market and media placement and allocation of advertising and marketing materials. All expenditures from each Regional Advertising Fund will be made to benefit the geographical area to which it applies. You agree that the Regional Advertising Funds may be used to pay the costs of preparing and producing such associated materials and programs as we or our designee may determine, including video, audio and written advertising materials; employing advertising agencies; sponsorship of sporting, charitable or similar events; administering regional and multi-regional advertising programs, including, without limitation, purchasing direct mail and other media advertising and employing advertising agencies to assist with these efforts; and supporting public relations, market research and other advertising, promotional and marketing activities. You agree to participate in all advertising, marketing, promotions, research and public relations programs instituted by your Regional Advertising Fund.

F. Treatment of Payments to CBC

(1) We may, as we deem appropriate, seek the advice of owners of Corner Bakery Cafes by formal or informal means with respect to the creative concepts and media used for programs financed by the Brand Development Fees, National Marketing Fund and the Regional Advertising Funds (collectively "Funds"). We reserve the right to have an affiliate or a designee manage any Fund. We shall separately account for the Funds; however, we shall not be required to segregate any of the Funds from our other monies. None of the Funds shall be used to defray any of our general operating expenses. Each Fund may hire employees, either full-time or part-time, for its administration. We and our affiliates may be reimbursed by each Fund for expenses directly related to the Fund's marketing programs, including, without limitation, conducting market research, preparing advertising and marketing materials and collecting and accounting for contributions to each Fund. You acknowledge and agree that contributions to each Fund are

not held by us in trust and we do not have any fiduciary obligation to you with respect to contributions to any Fund.

(2) All disbursements from the Funds shall be made first from income and then from contributions. While our intent is to balance each Fund on an annual basis, from time to time, a Fund may run at either a surplus or deficit. We may spend in any fiscal year an amount greater or less than the aggregate contributions of all company-owned and franchised Corner Bakery Cafes to a Fund in that year. Each Fund may borrow from us or other lenders to cover deficits in that Fund, and we may cause the Fund to invest any surplus for future use by the Fund. We will prepare annually an unaudited statement of monies collected and costs incurred by the Funds and furnish a copy to you upon your written request. We shall have the right to cause each Fund to be incorporated or operated through an entity separate from us at such time as we deem appropriate, and such successor entity shall have all of our rights and duties pursuant to this Section 6.

(3) You understand and acknowledge that the Funds are intended to enhance recognition of the Marks and patronage of Corner Bakery Cafes. We will endeavor to utilize the Funds to develop advertising and marketing materials and programs and to place advertising that will benefit the System and all Corner Bakery Cafes contributing to the respective Funds. You agree, however, that we are not liable to you, and you forever covenant not to sue us and hold us harmless from any liability or obligation to ensure that expenditures by each Fund in or affecting any geographic area (including the Franchised Location) are proportionate or equivalent to the Brand Development Fees paid and contributions to the National Marketing Fund and any Regional Advertising Fund by Corner Bakery Cafes operating in that geographic area, or that any Corner Bakery Cafe will benefit directly or in proportion to Brand Development Fees paid and its contributions to the National Marketing Fund or a Regional Advertising Fund from the development of advertising and marketing materials or the placement of advertising. Except as expressly provided in this Section 6, neither we nor our designee assumes any direct or indirect liability to you with respect to the maintenance, direction or administration of each Fund.

(4) We reserve the right, in our sole discretion, to: (a) suspend contributions to and operations of any Fund for one or more periods that we determine to be appropriate; (b) terminate any Fund upon 30 days' written notice to you and establish, if we so elect, one or more new Funds; and (c) defer or waive, in whole or in part, upon the written request of any franchised or company-operated Corner Bakery Cafes, any advertising contributions required by this Section 6 if, in our sole judgment, there has been demonstrated unique, objective circumstances justifying any such waiver or deferral. On termination of a Fund, all monies in that Fund shall be spent for advertising and/or promotional purposes. We have the right to reinstate any Fund upon the same terms and conditions set forth in this Agreement upon 30 days' prior written notice to you. We, in our sole discretion, and as we deem appropriate in order to maximize media effectiveness, may transfer monies from the National Marketing Fund to any Regional Advertising Fund or from any Regional Advertising Fund to the National Marketing Fund.

G. Field Marketing Expenditures

(1) You agree to spend for local advertising and promotion of the Franchised Cafe ("Field Marketing") the amount set forth in Appendix C, as subsequently modified by us. You shall furnish us with annual Field Marketing plans 60 days prior to your grand opening and by November 1st of the previous year for each year thereafter. You shall provide documentation to us regarding all Field Marketing expenditures on the 15th day of each month.

(2) If you do not make the required Field Marketing expenditures, we may collect the funds from you and spend them on your behalf for Field Marketing. We shall provide you with not less than 30 days prior notice of any change in your required Field Marketing expenditures. Field Marketing expenditures include the following pre-approved expenditures: (a) amounts spent by you for advertising media, such as electronic, print, radio, television and outdoor, banners, posters, direct mail, grassroots premiums, event invites, and, if not provided by us at our cost, the cost of producing approved materials necessary to participate in these media; and (b) coupons and special (or promotional) offers pre-approved by

us. Field Marketing expenditures do not include amounts spent for items, in our reasonable judgment, deemed inappropriate for meeting the minimum advertising requirement, including permanent on-premises signage, menu boards, menus, occasion signage, Yellow Pages advertising, lighting, personnel salaries or administrative costs, transportation vehicles (even though such vehicles may display the Marks), and employee incentive programs.

H. Special Promotions

(1) In addition to the contribution to the Funds and meeting your Field Marketing requirements, you shall participate in product promotions, product launches and price point promotions that we establish from time to time at your expense, provided such promotions do not violate applicable law. You are required to obtain our prior written approval prior to implementing such a program that we have not mandated or provided. You shall fully participate in all programs, public relations campaigns, prize contests, special offers, and other programs, national, regional, or local in nature (including the introduction of new products, new franchises or other marketing programs directed or approved by us) that are prescribed from time to time by us. You shall be responsible for the costs of such participation, which may include a commitment by you to purchase specified quantities of inventory and supplies to support these programs. To the extent permitted by law, you will comply with any maximum price restrictions that we promulgate from time to time.

(2) We may also require you to join and participate in regional, national, or international programs designed to increase business, including multi-area customer, national customer, commercial customer, Internet, event, yellow pages, directory affinity vendor, and co-branding programs ("Multi-Area Marketing Programs"). Such programs may require your cooperation (including refraining from certain channels of marketing and distribution), participation (including payment of commissions or referral fees), and adherence to maximum-pricing restrictions to the extent permitted by law. All such programs are our proprietary trade secrets. We may designate the coverage area, method and timing of payment, and any outside agencies for any Multi-Area Marketing Programs.

I. Prior Approval of Marketing Materials

(1) You agree to use in your marketing efforts the marketing materials available from us, which shall be made available to you at your expense, in the manner and frequency we require. You must submit to us for our prior approval, all marketing plans, written materials and samples of all marketing, public relations and promotional materials not prepared or previously approved by us and that vary from our standard marketing, public relations and promotional materials. If you elect to work with a marketing agency, you must obtain our written approval of such agency, which approval we may in our sole discretion withhold, before you sign any contracts or share any Confidential Information (as defined in Section 17.B.) with the agency.

(2) If purchased from a source other than CBC or our affiliates, these materials shall comply with federal and local laws and regulations and with the guidelines for marketing and promotions promulgated from time to time by us or our designee and shall be submitted to us or our designee at least 30 days prior to first use for our approval, which we may grant or withhold in our sole discretion. In no event shall your advertising contain any statement or material that, in our sole discretion, may be considered: (a) in bad taste or offensive to the public or to any group of persons; (b) defamatory of any person or an attack on any competitor; (c) to infringe upon the use, without permission, of any other persons' trade name, trademark, service mark or identification; or (d) inconsistent with the public image of the System or the Marks.

J. Websites and Social Media

~~J.~~(1) You agree not to promote, offer or sell any products or services, or to use any of the Marks, relating to the Franchised Cafe through the Internet, any Website or any other similar future technological avenues without our prior written consent, which we may withhold for any or no reason. As

used in this Agreement, the term "Website" means one or more related documents, designs, or other communications that can be accessed through electronic means (including, but not limited to, the Internet, the World Wide Web, and social networking sites like Facebook, Twitter, LinkedIn, blogs, vlogs, and other applications, etc.). We have no immediate plans to permit such Websites or Internet use. You further agree not to have a Website accessible by the public, or any part of the public, without our prior written consent, which we may withhold for any or no reason. In connection with any such consent, we may establish such requirements as we deem appropriate, including without limitation: (1) obtaining our prior written approval of any Internet domain name and home page addresses; (2) the proposed form and content (including any visible and non-visible content such as meta-tags) of any Website related to the Franchised Cafe; (3) submission for our approval of all Website pages, materials, and content; (4) use of all hyperlinks and other links; (5) restrictions on the use of any materials (including text, video clips, photographs, images, and sound bites) in which any third party has any ownership interest; and (6) obtaining our prior written approval of any modifications. We may designate the form and content of your Website and/or require that any such Website be hosted by us or a third party designated by us, using one or more Websites that we own and/or control. In addition, we may require you to establish hyperlinks to our Website or another Website designated by us. We may charge you a fee for developing, reviewing and approving your Website and/or for hosting the Website. You further agree to assign to us any domain names that you obtain containing the Marks that we, in our sole discretion, request and you further agree to assign any and all domain names containing the Marks used by you in the operation and promotion of the Franchised Cafe at such time as this Agreement terminates or expires.

(2) You shall comply with our standards for the System, as set forth in the Manual or otherwise, with regard to our authorization to use, and the use of, blogs, common social networks (including Facebook, Pinterest and Myspace), professional networks (including LinkedIn), live blogging tools (including Twitter), virtual worlds, file, audio and video sharing sites and other similar social networking media or tools that in any way reference the Marks or involve the System or the Franchised Cafe.

K. Identification of your Franchised Cafe Business. You must use, and only use, the e-mail address and other identifiers we designate in connection with the business of the Franchised Cafe. You agree not to transmit or cause any other party to transmit advertisements or solicitations by e-mail or other electronic media without first obtaining our written consent as to: (a) the content of such e-mail advertisements or solicitations; and (b) your plan for transmitting such advertisements. In addition to any other provision of this Agreement, you will be solely responsible for compliance with any laws pertaining to sending e-mails including but not limited to the Controlling the Assault of Non-Solicited Pornography and Proprietary Marketing Act of 2003 (known as the "CAN-SPAM Act of 2003").

L. Public and Media Relations. You agree that you will not issue any press or other media releases or other communication regarding the Franchised Cafe without our prior consent. As a franchisee of the System, you agree to only participate in internal and external communications activities regarding the Franchised Cafe that create goodwill, enhance our public image and build the Corner Bakery Cafe brand.

7. MANUAL

A. You acknowledge receipt on loan of our confidential and proprietary Manual, which contains information and knowledge that is unique, necessary and material to the System. You agree to comply fully with all mandatory standards, specifications and operating procedures and other obligations contained in the Manual. We maintain the Manual on a searchable proprietary limited access Intranet portal, which we will allow you to enter to provide you access to our electronic Manual. You may print one copy of the Manual from the portal, which is allowed as a loan to you.

B. As used in this Agreement, the term "Manual" also includes one or more manuals, publications, materials, drawings, memoranda, videotapes, audio tapes, compact disks, DVDs and electronic media that we from time to time may loan to you. The Manual may be supplemented or amended from time to time by letter, electronic mail, bulletin, videotapes, audio tapes, compact disks, software or other communications concerning the System to reflect changes in the image, specifications and standards

relating to developing, equipping, furnishing and operating a Corner Bakery Cafe. You shall keep your copy of the Manual current and up-to-date with all additions and deletions provided by or on behalf of us and shall purchase whatever equipment and related services (including, without limitation, a video cassette recorder, computer system, Internet service, dedicated phone line, facsimile machine, etc.) as may be necessary to receive these communications. If a dispute relating to the contents of the Manual develops, the master copy maintained by us at our principal offices shall control.

C. The Manual contains detailed standards, specifications, instructions, requirements, methods and procedures for the management and operation of the Franchised Cafe. The Manual also may relate to the: (1) selection, purchase, storage, preparation, packaging, ingredients, recipes, service and sale of all products and beverages sold at the Franchised Cafe; (2) management and employee training; (3) marketing, advertising and sales promotions; (4) maintenance and repair of the Franchised Cafe building, grounds, equipment, graphics, signs, interior and exterior décor items, fixtures and furnishings; (5) employee dress attire and appearance standards; (6) menu concept and graphics; (7) accounting, bookkeeping, records retention and other business systems, procedures and operations; (8) news flashes covering important developments to the System during the most recent eight weeks; (9) reports and other information useful for financial evaluation and planning; (10) resources, tools, including training materials, marketing resources, reference materials and promotional initiatives; and (11) contact information for Corner Bakery Cafe support centers, vendors, franchisees, and Cafe locations.

D. You agree at all times to operate the Franchised Cafe in strict conformity with the Manual; to take all measures necessary (and all security protocols we require) to limit access and insure confidentiality of the Manual, including the use of pass codes, firewalls, and other available technology; to refrain from reproducing the Manual or any part of it; and to disclose the contents of the Manual only to your employees who have a need to know. You agree to return to us the Manual loaned to you immediately upon the expiration or termination of this Agreement.

8. MODIFICATIONS OF THE SYSTEM

A. System Modifications. We, in our sole discretion, shall be entitled from time to time to change or modify the System, including modifications to the Manual, the menu and menu formats, the required equipment, the signage, the building and premises of the Franchised Cafe (including the trade dress, décor and color schemes), the presentation of the Marks, the adoption of new administrative forms and methods of reporting and payment of any monies owed to us (including electronic means of reporting and payment) and the adoption and use of new or modified Marks or copyrighted materials. Provided that we require the change or modification to be implemented in all franchised and company-operated Corner Bakery Cafes and at least 25% of company-operated Corner Bakery Cafes have actually implemented the change or modification, you shall accept and use or display in the Franchised Cafe any such changes or modifications to the System as if they were a part of the System at the time this Agreement was signed, and you will make such expenditures as the changes or modifications in the System may reasonably require.

B. Authorized Menu Items. Within 30 days after receipt of written notice from us, you shall begin selling any newly authorized menu items and cease selling any menu items that are no longer authorized, provided that the change or modification is required system-wide and at least 25% of company-operated Corner Bakery Cafes have actually implemented the change or modification. All food, beverage and merchandise items authorized for sale at the Franchised Cafe shall be offered for sale under the specific name designated by us. We, in our sole discretion, may restrict sales of menu items to certain time periods during the day. You shall establish menu prices in your sole and absolute discretion. If you have a suggestion for a new menu item or for a change to an authorized menu item or you desire to participate in a test market program, you shall provide to us written notice prior to implementation. You shall not add or modify any menu item or participate in a test market program without first having obtained our prior written approval. You shall purchase any additional equipment and smallwares as we deem reasonably necessary in connection with new menu items. If we require you to begin offering a new menu item that requires the purchase of additional equipment, a reasonable period of time, as determined in our sole discretion, shall be

provided for the financing, purchase and installation of any such equipment before such new menu items must be offered for sale at the Franchised Cafe.

C. **Renovation of the Franchised Cafe.** Extensive structural changes, major remodeling and renovations, and substantial modifications to existing equipment and improvements to modernize and conform the Franchised Cafe to the current image of the System for new franchised and company Corner Bakery Cafes shall be required at our request (but not more often than every five years). Capital expenses necessary for the repair and maintenance of the Franchised Location are not subject to the time limitations described in the preceding sentence. Within 60 days after receipt of our written notice regarding the required modernization, you shall prepare and complete drawings and plans for the required modernization. These drawings and plans must be submitted to, and their use approved by, us prior to the commencement of work. You shall complete the required modernization within the time reasonably specified by us in our written notice.

D. **Variations from System Standards.** We have the right, in our sole discretion, to waive, defer or permit variations from the standards of the System or the applicable agreement to any franchisee or prospective franchisee based on the peculiarities of a particular site, existing building configuration or circumstance, density of population, business potential, trade area population or any other condition or circumstance. We shall have the right, in our sole discretion, to deny any such request we believe would not be in the best interests of the System.

E. **Your Development of System Improvements.** All recipes, processes, ideas, concepts, supplier relationships, methods and techniques used or useful to a restaurant, or other business offering restaurant products, whether or not constituting protectable intellectual property, that you create, or that are created on your behalf, in connection with the development or operation of the Franchised Cafe must be promptly disclosed to us. If we adopt any of them as part of the System, they will be deemed to be our sole and exclusive property and deemed to be works made-for-hire for us. You hereby assign, and further agree to sign whatever further assignment or other documents that we request to evidence our ownership in, or to assist us in securing, intellectual property rights in such ideas, concepts, techniques or materials.

9. TRAINING AND GUIDANCE

A. **Pre-Opening Assistance.** We shall provide consultation and advice to you as we deem appropriate with regard to development and operation of the Franchised Cafe, building layout, furnishings, fixtures and equipment plans and specifications, employee recruiting, selection and training, purchasing and inventory control and such other matters as we deem appropriate.

B. **Initial Training Program**

(1) Unless you (or your affiliates) already operate at least three Franchised Cafes and one of the Franchised Cafes has been certified as a Certified Training Cafe (as described in Section 9.E.), prior to the Opening Date, your Operating Partner, your Multi-Unit Manager (as defined in Section 13.H., if applicable), your General Manager and up to three Managers of the Franchised Cafe (one of whom may be a Shift Supervisor if approved by us) and any other person designated by us, shall attend, and become certified in, our initial training program in the operation of a Franchised Cafe. The initial training program will include classroom instruction and training at our designated training facilities, which may be a Corner Bakery Cafe operated by CBC or our affiliates, unless a Franchised Cafe operated by you has been certified as a certified training cafe in accordance with Section 9.E. We will bear all expenses for the initial training program, provided that you will be required to pay all salaries, meals, lodging, other living expenses and transportation costs incurred by your employees while attending the initial training program. We will authorize the Franchised Cafe to open only after an adequate number of your employees, as determined by us in our sole discretion, have attended and successfully completed the initial training program.

(2) If any individual who is required to receive our certification fails to successfully complete the initial training program and receive our certification, then that individual may repeat the program or you may send a substitute to complete the next available program. We reserve the right to charge you a fee for providing any subsequent training program to these individuals or for training any of your substitute personnel.

(3) Subsequent to the opening of the Franchised Cafe, any employee of yours who assumes any of the positions listed in Section 9.B.(1) or the position of Shift Supervisor must, before assuming such position, attend the initial training program and receive our certification for that position. If we provide the initial training program to these additional employees, you shall pay to us a training fee at the then-current rate being charged by us to franchisees for such training, and you shall also be solely responsible for all meals, lodging and other living expenses and transportation costs incurred by your employees while attending the training.

C. Opening Assistance

(1) For your first two Franchised Cafes, we will provide an opening team of trainers (not to exceed eight personnel) to assist in the opening of the Franchised Cafe and in training your employees for the period deemed necessary by us, which shall not be less than 13 days. For your third Franchised Cafe opening, we will provide opening support (not to exceed four personnel) for the period deemed necessary by us, which shall not be less than 13 days, and you shall provide your own opening team of trainers. We do not charge any fees for providing our opening team of trainers or opening support personnel for your first three Franchise Cafes. For your fourth and subsequent Franchised Cafe openings, you will provide your own opening team of trainers from your Certified Training Cafe unless you request our opening team of trainers or any opening support or you do not have a Certified Training Cafe. In those instances, you will be required to pay our then-current hourly rate for our opening support personnel and our opening team of trainers in addition to their meals, lodging, other living expenses and transportation costs.

(2) You shall provide us written notice 40 days in advance of the scheduled opening date, and we shall have the right to rely on that date to schedule and coordinate our personnel who will assist in the opening. You must have a certificate of occupancy, or a conditional certificate of occupancy, at least two days before the scheduled arrival of our employees. We may delay the scheduled arrival of our employees if we determine, in our sole discretion, that the Franchised Cafe building is not safe or not ready to begin training.

(3) If the pre-opening training date or the opening date is postponed or delayed for failure to obtain a certificate of occupancy or for any other reason and, as a direct result thereof, we incur any additional costs and expenses, you shall promptly reimburse us for those costs and expenses, plus the salaries and the fringe benefits for the opening trainers during the period of such delay. If you request, we may, depending on the availability of our personnel, make available trainers for longer than the period deemed necessary by us. You shall pay the salaries (including the cost of fringe benefits which the parties agree equal 20% of their salaries) of any trainers who remain at the Franchised Cafe longer than the period deemed necessary by us, plus their meals, lodging, other living expenses and transportation costs.

D. Additional Training. We shall have the right (which may be exercised at any time and in our sole discretion) to require that your Operating Partner, your Multi-Unit Manager, your General Manager, Managers and any other employees designated by us take and successfully complete other training courses in addition to the initial training program. We reserve the right to require you to pay a tuition fee as established by us from time to time for these additional training programs within 30 days of receipt of an invoice from us. You will be required to pay all salaries, meals, lodging, other living expenses and transportation costs incurred by your employees while attending the training.

E. Training by You

(1) You shall conduct such initial and continuing training programs for your employees as we may require from time to time, including those training programs required in order for your employees to be certified for the position(s) for which each employee was hired, as described in Section 9.B.(1).

(2) If you operate three or more Franchised Cafes, within 90 days after you open your third Franchised Cafe, you must establish one of your Cafes as a Certified Training Cafe at which your trainers will offer the initial training program to your employees and opening training for future Franchised Cafes that you develop. We will not certify one of your Franchised Cafes as a Certified Training Cafe unless you operate three or more Franchised Cafes. We must certify the Franchised Cafe as a Certified Training Cafe before you may begin training there. We may periodically visit the Certified Training Cafe to ensure that it continues to meet our standards. Failure of one of the Franchised Cafes to qualify (or continue to qualify) as a Certified Training Cafe shall constitute a default of this Agreement. In that event, your General Manager, Managers and any other employees of that Franchised Cafe designated by us must attend and successfully complete our initial training program at a training facility designated by us, which may be a Corner Bakery Cafe operated by CBC or our affiliates. You will be required to pay a tuition fee for your employees who attend the training program in addition to paying all salaries, meals, lodging, other living expenses and transportation costs incurred by your employees while attending the training program.

F. **Post-Opening Assistance.** We periodically, as we deem appropriate, shall advise and consult with you in connection with the operation of the Franchised Cafe. We, as we deem appropriate, shall provide to you our knowledge and expertise regarding the System and pertinent new developments, techniques and improvements in the areas of restaurant design, management, food and beverage preparation, sales promotion, service concepts, employee recruiting, selection and training, purchasing and inventory control, and such other matters as we deem appropriate. We may provide these services through visits by our representatives to the Franchised Cafe or your offices, the distribution of printed, filmed or electronic information, meetings or seminars, telephone communications, e-mail communications or other communications. We periodically shall inspect the Franchised Cafe and its operations to assist your operations and ensure compliance with the System. At your request, we may provide special assistance at the Franchised Cafe for which you will be required to pay our per diem fees and charges we may establish from time to time.

G. **Delegation.** We have the right, from time to time, to delegate the performance of any portion or all of our obligations and duties under this Agreement to our designees, whether affiliates or agents of ours or independent contractors with whom we have contracted to provide this service.

H. **Control by Us.** Notwithstanding anything to the contrary in this Section 9, you and we recognize and agree that we do not exercise any day-to-day control of the Franchised Location, security at the Franchised Location, food preparation, the hiring and firing of employees, or other forms of day-to-day control.

10. PERFORMANCE STANDARDS AND UNIFORMITY OF OPERATION

A. **Operation of the Franchised Cafe.** During the term of this Agreement, you shall operate the Franchised Cafe in strict conformity with the System and the Manual (and such other methods, standards and specifications as we may from time to time prescribe in the Manual or otherwise in writing). You acknowledge that every detail of the Franchised Cafe is important to you, us, and other franchisees in order to develop and maintain high operating standards, to increase the demand for the services and products sold by all Corner Bakery Cafes, and to protect our reputation and goodwill. Furthermore, you agree:

(1) To maintain in sufficient supply, and to use and/or sell at all times, only such menu items, ingredients, products, materials, supplies and paper goods as conform with our standards and specifications, and to refrain from deviating from those standards by the use or offer of non-conforming items, without our prior written consent.

(2) To sell or offer for sale only such menu items, products and services as have been expressly approved for sale in writing by us; to sell or offer for sale all types of menu items, products and services specified by us; to refrain from any deviation from our standards and specifications without our prior written consent; and to discontinue selling and offering for sale any menu items, brands, products or services which we may, in our discretion, disapprove in writing at any time.

(3) To permit us or our agents, at any reasonable time, to remove samples of food or non-food items from your inventory or from the Franchised Cafe, without payment therefor, in amounts reasonably necessary for testing by us or an independent laboratory to determine whether said samples meet our then-current standards and specifications. In addition to any other remedies we may have under this Agreement, we may require you to bear the cost of such testing if the supplier of the item has not previously been approved by us or if the sample fails to conform with our then-current specifications and require you to remove and destroy such item at your sole cost without reimbursement from us.

(4) To purchase and install, at your expense, all FFE&S, computer software and hardware, and décor items as we may reasonably direct from time to time in the Manual or otherwise in writing; and to refrain from installing or permitting to be installed on or about the Franchised Cafe premises, without our prior written consent, any FFE&S, computer software and hardware, décor, games, vending machines or other items not previously approved as meeting our standards and specifications.

(5) To sell or offer for sale products and services only at the Franchised Cafe or through the Corner Bakery Cafe Catering Program in the Protected Area.

(6) To permit us to poll your point of sale and other related computer systems (regardless of the location at the Franchised Cafe, your offices, or other locations) for the purpose of compiling Gross Sales and other relevant data.

(7) To refrain from using or locating within the Franchised Cafe any vending machines, racks, electronic, non-electronic or gambling type games, or other items not specifically approved by us in writing prior to such use or location in the Franchised Cafe.

(8) To offer courteous and efficient service and a pleasant ambiance at the Franchised Cafe, consistent with the service and ambiance offered at Corner Bakery Cafes operated by us and our affiliates, including music requirements and other ambiance-related items.

(9) To provide to us accurate information as to your volume usage as to any and all ingredients and products used and/or anticipated to be used in the Franchised Cafe, and you authorize us to use and report such information as we deem appropriate in contract negotiations and maintenance and other purposes as we deem appropriate. You further agree that we have the right to enter into vendor contracts and relationships that we believe benefit you and that bind you, all as we deem appropriate.

B. **Specifications and Standards.** You agree to comply with all mandatory specifications, standards and operating procedures, as modified from time to time (whether contained in the Manual or any other written communication), relating to the appearance, function, cleanliness or operation of a Corner Bakery Cafe, including: (1) type, quality, taste, weight, dimensions, ingredients, uniformity, and manner of preparation, packaging and sale of food products and beverages; (2) sale procedures and customer service; (3) advertising and promotional programs; (4) qualifications, appearance and dress of employees; (5) safety, maintenance, appearance, cleanliness, sanitation, standards of service and operation of the Franchised Cafe; (6) days and hours of operation; (7) bookkeeping, accounting and record keeping systems and forms; (8) type, quality, and appearance of paper products, smallwares, and equipment; (9) training systems for both management and hourly staff members; and (10) information technology software and hardware.

C. **Proprietary Products.** We may, from time to time, in our sole discretion, require that you purchase, use, offer and/or promote, and maintain in stock at the Franchised Cafe in such quantities as are needed to meet reasonably anticipated consumer demand, certain proprietary sauces, products, and other

ingredients and raw materials that are manufactured in accordance with our proprietary recipes, specifications and/or formulas and/or uniquely specified or sourced ("Proprietary Products"). You shall purchase those Proprietary Products only from us or a third party designated and licensed by us to prepare and sell such products (collectively "Designated Suppliers"). We shall not be obligated to reveal such recipes, specifications and/or formulas of such Proprietary Products, or the terms and conditions of any supplier or other contracts, to you, non-designated suppliers, or any other third parties.

D. Non-Proprietary Ingredients & Products. We may designate other food products, condiments, beverages, fixtures, smallwares, furnishings, equipment, uniforms, supplies, services, menus, packaging, forms, paper products, software, modems and peripheral equipment and other products and equipment other than Proprietary Products that you must use and/or offer and sell at the Franchised Cafe ("Non-Proprietary Products"). You may use, offer or sell only such Non-Proprietary Products that we have expressly authorized, and such products must be purchased or obtained from a producer, manufacturer, supplier or service provider that we have approved ("Approved Supplier") or an alternative Approved Supplier that we have designated or approved pursuant to Section 10.D.2. below.

(1) Each Approved Supplier must comply with our usual and customary requirements regarding insurance, indemnification, and non-disclosure, and shall have demonstrated to our reasonable satisfaction: (a) its ability to supply a Non-Proprietary Product meeting our specifications, which may include, without limitation, specifications as to brand name, contents, manner of preparation, ingredients, quality, freshness and compliance with governmental standards and regulations; and (b) its reliability with respect to delivery and the consistent quality of its products and services.

(2) If you desire to procure Non-Proprietary Products from a supplier other than one previously approved or designated by us, you shall deliver written notice to us, which shall: (a) identify the name and address of such supplier; (b) contain such information as may be requested by us or required to be provided pursuant to the Manual (which may include reasonable financial, operational and economic information regarding its business); and (c) identify the authorized Non-Proprietary Products desired to be purchased from such supplier. We shall, upon your request, furnish specifications for such Non-Proprietary Products if the specifications are not contained in the Manual. We may thereupon request that the proposed supplier furnish us at no cost to us product samples, specifications and such other information as we may require. We, or our representatives, including qualified third parties, shall also be permitted to inspect the proposed supplier's facilities and establish economic terms, delivery, service and other requirements consistent with other distribution relationships for Corner Bakery Cafes. As a further condition of our approval, we may require a supplier to agree in writing to: (i) provide, from time to time upon our request, free samples of any Non-Proprietary Product it intends to supply to you; (ii) faithfully comply with our specifications for applicable Non-Proprietary Products sold by it; (iii) sell any Non-Proprietary Product bearing our Marks only to our franchisees and only pursuant to a trademark license agreement in the form prescribed by us; (iv) provide to us duplicate purchase invoices for our records and inspection purposes; (v) make the products available to all of our company-operated and franchised Corner Bakery Cafes; and (vi) otherwise comply with our reasonable requests.

(3) We will use our good faith efforts to notify you of our decision within 120 days after our receipt of product samples from the proposed alternative supplier and all other requested information. If we approve the supplier, such supplier shall be designated an "Alternative Approved Supplier" for purposes of this Agreement. We reserve the right, at our option, to re-inspect the facilities and products of any Alternative Approved Supplier and to revoke our approval upon the suppliers' failure to continue to meet any of the foregoing criteria. You or the proposed supplier shall pay to us in advance all of our reasonably anticipated costs in reviewing the application of the Alternate Approved Supplier and all current and future reasonable costs and expenses, including travel and lodging costs, related to inspecting, re-inspecting and auditing the Alternate Approved Suppliers' facilities, equipment and food products, and all product testing costs paid by us to third parties.

(4) We shall not be obligated to disclose the terms and conditions, including the pricing, to anyone as to Proprietary or Non-Proprietary Products. We may also determine that certain Non-Proprietary Products (e.g., beverages) shall be limited to a designated brand or brands.

E. Rebates. We and our affiliates may negotiate purchasing arrangements under which suppliers agree to make equipment, products and services available to Corner Bakery Cafes. ~~If we or We~~ and our affiliates may receive any fees, rebates, commissions, volume discounts or other payments from third-party suppliers based on your purchases from them, ~~we will pay you your pro-rata share of such rebates, commissions or other payments based on your purchases from those third-party suppliers.~~

F. Prices. You shall be solely responsible for determining the prices of products offered at the Franchised Cafe; however you are required to comply with any maximum or minimum resale pricing maximum restrictions we may implement so long as such pricing does not violate applicable law.

G. Test Marketing. We may, from time to time, authorize you to test market products and/or services in connection with the operation of the Franchised Cafe. You shall cooperate with us in connection with the conduct of such test marketing programs and shall comply with our procedures established from time to time in connection with such programs as set forth in the Manual.

H. Cafe Management and Personnel

(1) You acknowledge and agree that optimum restaurant performance requires specialized leadership in the form of a duly trained General Manager. The General Manager must dedicate 100% of his or her working time to the management of the Franchised Cafe. To ensure the integrity of all Corner Bakery Cafes, the General Manager position must be a full-time position and may not be combined with an area or district manager or any other position. We may change the organizational structure of the System from time to time, in which case you will be required to adopt the then-current structure.

(2) For a 6-month period following the Opening Date, the Franchised Cafe shall at all times be under the on-site supervision of your Operating Partner, Multi-Unit Manager or General Manager and three Managers (one of whom may be a Shift Supervisor if approved by us) who meet all applicable training qualifications for their designated position or title. Thereafter, the Franchised Cafe shall at all times be under the on-site supervision of your Operating Partner, Multi-Unit Manager or General Manager and two Managers (one of whom may be a Shift Supervisor if approved by us) who meet all applicable training qualifications for their designated position or title.

(3) If at any time you fail to employ at least three managers that have successfully completed our initial training program, we have the right, in our sole discretion, to send our personnel to the Franchised Cafe to manage the Franchised Cafe until you hire replacement managers and they have successfully completed our initial training program. For the first 60 days of their placement with you, you shall pay us the salaries (including the cost of fringe benefits, which the parties agree equal 20% of their salaries) and all meals, lodging, other living expenses and transportation costs of our management personnel. Thereafter, you shall pay us double the salaries (including the cost of fringe benefits, which the parties agree equal 20% of their salaries) and all meals, lodging, other living expenses and transportation costs of our management personnel.

(4) Your Operating Partner or Multi-Unit Manager shall remain active in overseeing the operations of the Franchised Cafe, including, without limitation, regular, periodic visits to the Franchised Cafe and sufficient communications with us to ensure that the Franchised Cafe's operations comply with the operating standards as promulgated by us from time to time in the Manual or otherwise in written or oral communications.

(5) You shall hire all employees of the Franchised Cafe and be exclusively responsible for the terms of their employment and compensation and the proper training of such employees in the operation of the Franchised Cafe, human resources and customer relations. You shall endeavor to employ

only suitable persons of good character and reputation who will at all times conduct themselves in a competent and courteous manner in accordance with the image and reputation of the System and, while on duty, comply with the dress attire, personal appearance and hygiene standards set forth in the Manual. You shall use your best efforts to ensure that your employees maintain a neat and clean appearance and render competent and courteous service to all customers and fellow employees of the Franchised Cafe.

(6) You may not knowingly recruit or hire any person who is or was an employee of ours or of any Corner Bakery Cafe operated by us, our affiliates or another franchisee of ours, for six months from the last day of such employee's employment, without obtaining the employer's consent, which consent may be withheld for any reason. Likewise, we may not recruit or hire any person who is or was an employee of yours or your affiliates for six months from the last day of such employee's employment without obtaining the employer's consent, which consent may be withheld for any reason.

(7) In order to prevent any interruption in the operation of the Franchised Cafe and any injury to the goodwill and reputation that would cause harm to the Franchised Cafe, you authorize us, and we shall have the right, but not the obligation, to operate the Franchised Cafe for so long as we deem necessary and practical, and without waiver of any other rights or remedies we may have under this Agreement, in the event that: (a) your Operating Partner is absent or incapacitated by reason of illness or death and you are not, in our sole judgment, able to identify a replacement Operating Partner to perform under this Agreement; or (b) any allegation or claim is made against the Franchised Cafe, you or the Operating Partner involving or relating to any fraudulent or deceptive practice. If we install a support manager to operate the Franchised Cafe, we, at our option, shall not be obligated to operate the Franchised Cafe for a period in excess of 90 days. During any period in which we operate the Franchised Cafe, we will retain all revenues from the operation of the Franchised Cafe in a separate account, and we will pay the expenses of the Franchised Cafe, including Royalty Fees, marketing contributions and expenditures, compensation and expenses for our representative out of that account. If the revenues of the Franchised Cafe are not sufficient to cover these expenses, you will pay us on demand, or we may Sweep the designated EDTA to obtain payment of, the amount necessary to pay these expenses in full. If we elect to temporarily operate the Franchised Cafe on your behalf, you hereby do and further agree to indemnify and hold us harmless from any and all claims arising from our acts and omissions.

I. Repair and Maintenance of the Franchised Cafe

(1) You shall maintain the Franchised Cafe in a first-class manner and condition, and you shall, at your sole cost, make such repairs to the Franchised Cafe as may be required to maintain the Franchised Cafe in a first-class manner and condition (including without limitation, periodic repainting and/or replacement of obsolete or damaged signs, furnishings, equipment and décor) as we may reasonably direct. If you are not permitted to make certain repairs because such repairs are reserved to the landlord of the Franchised Location as common area maintenance, you shall use diligent efforts to cause the landlord to make such repairs timely and in a workmanlike manner. Except for repairs required to maintain the Franchised Cafe in a first class manner and condition, all other repairs, replacements, additions, and modifications to the Franchised Cafe shall require our prior written consent. You may not make any alterations to the Franchised Cafe that would be different than the original accepted plans, nor replace any FFE&S with FFE&S that are not in accordance with our standards and specifications or are inconsistent with or have caused variation in the accepted plans or the approved FFE&S, without our prior written approval. We have the right, at your expense, to rectify any replacements, relocations or alterations not previously approved by us in writing.

(2) If, at any time, the general state of repair, appearance or cleanliness of the Franchised Cafe or its FFE&S does not meet our standards, we may notify you and specify the action you must take to correct such deficiency. If, within 14 days after receiving such notice, you fail or refuse to initiate in good faith and with due diligence a bona fide program to complete such required maintenance, we have the right (in addition to our rights under Section 18), but not the obligation, to enter the Franchised Location and perform such maintenance on your behalf and at your expense. You must promptly reimburse us for such expenses and the cost of coordinating such repairs.

(3) If the Franchised Cafe is damaged or destroyed by fire or other casualty, you must initiate within 30 days (and diligently continue until completion, which shall be accomplished in no more than 120 days) all repairs or reconstruction to restore the Franchised Cafe to its original condition (and all remodeling performed or required to be performed to date), unless your landlord fails to rebuild the premises. If, in our reasonable judgment, the damage or destruction is of such a nature that it is feasible, without incurring substantial additional costs, to repair or reconstruct the Franchised Cafe in accordance with the then-standard Corner Bakery Cafe layout and décor specifications, we may require you to repair or reconstruct the Franchised Cafe in accordance with those specifications.

J. Inspection by CBC. We and our designees have the right at any reasonable time and without prior notice to: (1) inspect the Franchised Cafe; (2) observe, photograph, audio-tape and/or video tape the operations of the Franchised Cafe; (3) remove samples of any food and beverage products, materials or supplies for testing and analysis; and (4) interview personnel and customers of the Franchised Cafe. You agree to cooperate fully with such activities. Upon notice from us or our agents and without limiting our other rights under this Agreement, you shall take such steps as may be necessary to correct immediately any deficiencies detected during any such inspection. Should you, for any reason, fail to correct such deficiencies within a reasonable time as determined by us, we shall have the right and authority (without, however, any obligation to do so) to correct such deficiencies and to charge you a reasonable fee for our expenses in so acting, payable by you immediately upon demand.

K. Sanitation and Quality Control Programs

(1) You shall meet and maintain the highest governmental health standards and ratings applicable to the operation of the Franchised Cafe. You shall furnish to us, within five days after receipt by you, a copy of any inspection report, warning, citation, certificate and/or rating which indicates your failure to meet or maintain the highest applicable governmental health or safety standards in the operation of the Franchised Cafe.

(2) We reserve the right to require your participation in a mandatory sanitation and food safety program relating to the Franchised Cafe (including periodic inspections and evaluations of the Franchised Cafe) in accordance with such rules, terms, and conditions as we deem advisable. We reserve the right to incorporate the rules, terms, and conditions of such sanitation program into the Manual and supplement such rules, terms, and conditions from time-to-time through modifications to the Manual. You acknowledge you may be responsible for some (or all) costs of this sanitation program as it applies to the Franchised Cafe.

(3) We may, in our sole discretion, establish "quality control" programs, such as a "mystery diner" program, other consumer experience evaluation programs, "customer intercept" programs, 800 numbers and employee experience surveys, intercepts, and evaluations, to ensure the highest quality of service and food products in all Corner Bakery Cafes. You shall participate in any such quality control programs, including those we add or modify from time to time, and bear your proportionate share, as determined by us in our sole discretion, of the costs of any such program. We shall have access to any data resulting from such programs implemented at the Franchised Cafe, and you shall have access to such data from our company-operated Corner Bakery Cafes.

(4) To further ensure quality and food safety standards, you also shall participate in our then-current food safety audit program and have food safety audits conducted at the Franchised Cafe at least once every six months at your sole cost

L. Customer List. You must create and maintain, in such manner as we may from time to time require, a current customer list (the "Customer List") containing as to each of your customers, such customer's name, e-mail address, location address, telephone number and zip code (nine digits). You must provide a copy of such list to us on a quarterly basis (or at such other intervals as we may prescribe). The Customer List is, and remains, our exclusive property; you hereby assign to us all rights you now have or hereafter may acquire in the Customer List. After the expiration or termination of this Agreement you may

~~not retain, use or disclose the Customer List, or any of the information contained therein, without our written authorization. The Customer List qualifies as Customer Data as that term is defined in Section 5.D.(3).~~

M. Crisis Management. To further ensure quality, food safety, overall customer experience, and brand integrity, you must advise us immediately of any crisis so that we may assist you in handling the after effects of such matter, or if we mutually agree, or we deem it necessary, we may take the lead in managing the after effects of such matter. The following circumstances should be reported immediately: (1) alleged food borne illness of one or more persons in any one day in the Franchised Cafe; (2) fire or other building casualty for which customers are evacuated; (3) robbery; (4) any violence at the Franchised Cafe; (5) any other circumstances that have the potential to result in any significant adverse publicity or impact on the System.

N. Taxes

(1) You shall promptly pay when due all taxes levied or assessed (including, without limitation, unemployment and sales taxes) and all accounts and other indebtedness of every kind incurred by you in the conduct of the Franchised Cafe under this Agreement. You shall pay to us an amount equal to any sales tax, gross receipts tax, or similar tax (other than income tax) imposed on us with respect to any payments to us required under this Agreement, unless the tax is credited against income tax otherwise payable by us.

(2) In the event of any bona fide dispute as to your liability for taxes assessed or other indebtedness, you may contest the validity or the amount of the tax or indebtedness in accordance with procedures of the taxing authority or applicable law; however, in no event shall you permit a tax sale or seizure by levy of execution or similar writ or warrant, or attachment by a creditor, to occur against the Franchised Cafe and/or Franchised Location (or any improvements thereon).

O. Business Licenses. This Agreement is expressly conditioned upon your ability to secure and maintain, at your sole cost, any and all required state, county, and/or local licenses required for the construction and operation of the Franchised Cafe (collectively, "Licenses"). After you have secured the required Licenses, you shall thereafter comply with all applicable laws and regulations relating to the development and operation of the Franchised Cafe. If operations pursuant to this Agreement or the Manual at the Franchised Cafe are suspended or prohibited for more than 30 consecutive days as a result of your failure to comply with applicable laws and regulations relating to any Licenses, then we may, in our sole discretion, terminate this Agreement upon 10 days prior written notice to you.

P. Compliance with Laws. You must operate the Franchised Cafe in full compliance with all applicable laws, ordinances and regulations including, without limitation, all laws or regulations governing or relating to the handling of food products, menu and nutritional labeling, immigration and discrimination, occupational hazards and health insurance, employment laws, including, without limitation, workers' compensation insurance, unemployment insurance, and the withholding and payment of federal and state income taxes, social security taxes and sales taxes. You must notify us in writing immediately upon: (1) the commencement of any legal or administrative action, or the issuance of an order of any court, agency or other governmental instrumentality that may adversely affect the development, occupancy or operation of the Franchised Cafe or your financial condition; or (2) the delivery of any notice of violation or alleged violation of any law, ordinance or regulation, including those relating to health, or sanitation at the Franchised Cafe.

Q. Non-Cash Payment Systems.

R.(1) You shall accept debit cards, credit cards, stored value gift cards or other non-cash payment systems specified by us to enable customers to purchase authorized products and shall obtain all necessary hardware and/or software used in connection with these non-cash payment systems. At all times, you must maintain credit-card relationships with the credit- and debit-card issuers or sponsors, check or credit verification services, financial-center services, and electronic-fund-transfer systems that we designate as mandatory, and you must not use any such services or providers that we have not approved in writing or

for which we have revoked our approval. We have the right to modify our requirements and designate additional approved or required methods of payment and vendors for processing such payments, and to revoke our approval of any service provider. You must sign our Gift Card Participation Agreement, which is attached to this Agreement as Appendix F, and any future Gift Card Participation Agreements that we require to designate new vendors or procedures for administering our gift card program. You must comply with our credit-card policies, including minimum purchase requirements for a customer's use of a credit card as prescribed in the Manuals. ~~You must comply at the same level of certification as company-operated Corner Bakery Cafes with the Payment Card Industry Data Security Standards ("PCI-DSS") as those standards may be revised and modified by the Payment Card Industry Security Standards Council or such successor or replacement organization and/or in accordance with other standards as we may specify.~~

(2) You agree to comply with our standards for processing electronic payments and any costs to do so are at your expense. You agree to abide by: (a) the Payment Card Industry Data Security Standards ("PCIDSS") enacted by the applicable Card Associations (as they may be modified from time to time or as successor standards are adopted); (b) the Fair and Accurate Credit Transactions Act ("FACTA"); and (c) all other standards, laws, rules, regulations or any equivalent thereof applicable to electronic payments that may be published from time to time by payment card companies and applicable to electronic payments ("Electronic Payment Requirements"). If required by us or by one of the credit card companies, you shall provide us with evidence of compliance with PCIDSS, FACTA, or applicable Electronic Payment Requirements and provide, or make available, to us copies of an audit, scanning results or related documentation relating to such compliance. Any costs associated with an audit or to gain compliance with PCIDSS, FACTA or any Electronic Payment Requirements shall be borne by you. If you know or suspect a security breach, you must immediately notify us. You will promptly identify and remediate the source of any compromise. You assume all responsibility for providing all notices of breach or compromise and all duties to monitor credit histories and transaction concerning customers of the Franchised Cafe.

11. INSURANCE

A. Procurement of Insurance. You are responsible for all loss or damage arising from or related to your development and operation of the Franchised Cafe and all demands or claims with respect to any loss, liability, personal injury, death, property damage or expense occurring upon the premises of, or arising from the development and/or operation of, the Franchised Cafe. You shall maintain in full force and effect throughout the term of this Agreement that insurance that you determine is necessary or appropriate for liabilities caused by or occurring in connection with the development or operation of the Franchised Cafe, which shall include, at a minimum, insurance policies of the kinds, and in the amounts, required by Section 11.B. We, and any entity with an insurable interest that we designate, shall be an additional insured in such policies to the extent each has an insurable interest.

B. Minimum Insurance Requirements. All insurance policies shall be written by an insurance company or companies satisfactory to us, in compliance with the standards, specifications, coverages and limits set forth in the Manual or otherwise provided to you in writing. We may reasonably increase the minimum coverage required and/or require different or additional kinds of insurance to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances. We will provide to you written notice of such modifications, and upon receipt, you shall take prompt action to secure the additional coverage or higher policy limits. These policies shall include, at a minimum, the following:

(1) Commercial General Liability Insurance, including broad form contractual liability, broad-form property damage, personal injury, completed operations, products liability, and fire damage coverage, in the amount of \$1,000,000 per occurrence for bodily injury and property damage and \$2,000,000 general aggregate;

(2) "All Risk" Property Insurance, including fire and extended coverage insurance (including vandalism and malicious mischief insurance, earthquake insurance and flood insurance where applicable) for the Franchised Cafe in an amount not less than the full replacement value thereof;

(3) Worker's Compensation Insurance and such other insurance as may be required by statute or rule of the state or locality in which the Franchised Cafe is located. This coverage shall also be in effect for all of your employees who participate in any of our training programs and shall include Employer's Liability Insurance in the amount of \$100,000 per person, \$500,000 in the aggregate and \$100,000 for occupational disease;

(4) Business Interruption and Extra Expense Insurance, including rental payment continuation for a minimum of 12 months, loss of profits and other extra expenses experienced during the recovery from property loss;

(5) Plate Glass Insurance for replacement of glass from breakage;

~~(6) Employer's Liability Insurance in the amount of \$100,000 per person, \$500,000 in the aggregate and \$100,000 for occupational disease;~~

~~(7)(6) Food Borne Illness and Trade Name Restoration Policy in the amount of \$250,000;~~

~~(8)(7) Builder's All Risk Insurance in connection with any construction, renovation, refurbishment or remodeling of the Franchised Cafe, and any new construction, or substantial renovation, refurbishment or remodeling of the Franchised Cafe and performance and completion bonds in forms and amounts, and written by a carrier or carriers, reasonably satisfactory to us. You must also obtain a certificate of liability insurance naming you and CBC from any general contractor who performs work at the Franchised Cafe;~~

~~(9)(8) Business Auto Liability Insurance including coverage for all owned, non-owned and hired autos with a limit of liability of not less than \$1,000,000 per occurrence (combined single limit for bodily injury and property damage); and~~

~~(10)(9) Excess "Umbrella" Liability Insurance providing liability insurance in excess of the coverage limits in clauses (1), (6) and (9), on a coverage form at least as broad as those policies, with a limit of not less than \$2,000,000 per occurrence and \$2,000,000 Annual Aggregate.~~

C. Policy Requirements. The following general requirements shall apply to each insurance policy that you are required to maintain under this Agreement:

(1) Each insurance policy shall be specifically endorsed to provide that the coverages shall be primary and that any insurance carried by any additional insured shall be excess and non-contributory.

(2) No insurance policy shall contain a provision that in any way limits or reduces coverage for you in the event of a claim by CBC or our affiliates.

(3) Each insurance policy shall extend to, and provide indemnity for, all of your obligations and liabilities to third parties and all other items for which you are required to indemnify us under this Agreement.

(4) Each insurance policy shall be written by an insurance company that has received and maintains at least an "A-" rating by the latest edition of Best's Insurance Rating Service.

(5) No insurance policy shall provide for a deductible amount that exceeds \$5,000, unless otherwise approved in writing by us, and your co-insurance under any insurance policy shall be 80% or greater.

D. Evidence of Insurance. No later than 30 days after we sign this Agreement, and on each insurance policy renewal date thereafter, you must submit to us evidence of satisfactory insurance and proof of payment. ~~The-oidonco-of-insuranco-choll-include-a-statement-by-tho-insurer-that-tho-policy-or-policios-will not-bo-cancelod-or-matorially-aitorod-without-at-least-30-days'-prior-written-notico-to-us.~~ Upon our request, you must provide to us copies of any policies and policy amendments and riders.

E. No Representations. You acknowledge that no requirement for insurance contained in this Agreement constitutes advice or a representation by us that only such policies, in such amounts, are necessary or adequate to protect you from losses in connection with your business under this Agreement. Maintenance of this insurance, and your performance of your obligations under this Section 11, shall not relieve you of liability under the indemnification provisions of this Agreement.

F. Our Right to Procure Insurance. If you fail to obtain or maintain at least the insurance required by this Section 11, as revised from time to time pursuant to the Manual or otherwise in writing, we may obtain such insurance and charge its cost to you. Upon your receipt of an invoice from us, you must immediately reimburse us for all out-of-pocket costs incurred by us in obtaining such insurance on your behalf.

12. MARKS

A. Scope. The term "Marks" as used in this Agreement refers to ail words, symbols, insignia, devices, designs, trade names, service marks or combinations thereof designated by us as identifying the System and the products sold and services provided in connection with the System. We represent that we have the right to use, and to license others to use, the Marks. We shall, from time to time, advise you as to any additions or deletions to the Marks, and your right to use the Marks shall be deemed modified by those additions or deletions.

B. Limited Right To Use Marks. Your right to use the Marks is limited to your use of the Marks in the operation of the Franchised Cafe at the Franchised Location and as expressly provided in this Agreement and the Manual. You shall not use the Marks or any variations of the Marks or marks or names confusingly similar to the Marks in any manner not authorized by us in writing as part of any URL, domain name, Website, meta-tag, download, application, posting, social networking profile, directory listing, screen name, anonymous name, blog, vlog, e-mail account, instant messaging account, texting identity, user generated content, or any other identification of you or the Franchised Cafe in any electronic medium (collectively, and individually, "Electronic Identifiers"). You shall not use the Marks or any variations of the Marks in any corporate, limited liability company or partnership name. You shall not use any other trade names, service marks or trademarks in conjunction with the Franchised Cafe. If local laws or ordinances require that you file an affidavit of doing business under an assumed name or otherwise make a filing indicating that the Marks are being used as a fictitious or assumed name, you shall include in such filing or application an indication that the filing is made "as a franchisee of CBC Restaurant Corp." You shall use the symbol ® with all registered marks and the symbol ™ with all pending registrations or other marks.

C. Modifications to the Marks. If we should elect to use a principal name other than "Corner Bakery Cafe" to identify the System, we may select another name and notify you to change all or some items bearing the Marks to the new name within a reasonable period of time as determined by us, and you promptly shall adopt that name. You will bear the sole cost and expense of making these changes, and we shall have no obligation or liability to you as a result of any such changes.

D. Your Acknowledgements Concerning the Marks. You agree that nothing in this Agreement gives you any right, title or interest in the Marks (except the right to use the Marks in accordance with the tenns of this Agreement), that the Marks are our sole property, that you shall not directiy or indirectiy

contest the validity or ownership of the Marks or our right to license the Marks, and that any and all uses by you of the Marks and the goodwill arising therefrom shall inure exclusively to our benefit. You will not seek to register, reregister, assert claim to ownership of, license or allow others to use, or otherwise appropriate to yourself, any of the Marks or any mark or name confusingly similar thereto, or the goodwill symbolized by any of the foregoing, except to the extent this action inures to our benefit and has our prior written approval. Any unauthorized use of the Marks by you or attempt by you, directly or indirectly, to register the Marks in any jurisdiction shall constitute a breach of this Agreement and an infringement of our rights in and to the Marks.

E. Notice of Challenges. You promptly shall inform us in writing as to any suspected unauthorized use of the Marks, any challenge to the validity of the Marks, or any challenge to our ownership of, right to use and to license others to use, or your right to use, the Marks of which you have knowledge. You shall not make any demand or serve any notice, orally or in writing, or institute any legal action or negotiate, compromise or settle any controversy with respect to any such infringement without first obtaining our written approval. We shall have the right, but not the obligation, to bring such action or take such steps as we may deem advisable to prevent any such infringement and to join you as a party to any action in which we are or may be a party and as to which you are or would be a necessary or proper party. You also shall promptly notify us of any litigation (including administrative or arbitration proceedings) of which you are aware instituted against us, our affiliates or you relating to the Marks. You shall sign any and all instruments and documents, render such other assistance and perform any acts as may, in the opinion of our counsel, be necessary or advisable to protect and maintain our interests in the Marks, including, without limitation, our interests in litigation or proceedings before the U.S. Patent and Trademark Office or other tribunal relating to the Marks. We agree to reimburse you for all costs and expenses related to any actions taken by you in conjunction with this Section 12.E.

F. Indemnification for Use of Marks. We agree to reimburse you for all damages and expenses that you incur in any trademark infringement proceeding challenging your authorized use of any Mark under this Agreement if you have timely notified us of, and comply with our directions in responding to, the proceeding, and you have used the Mark(s) in compliance with this Agreement, the Manual, and any other directives from us. At our option, we may defend and control the defense of any proceeding arising from your use of any Mark under this Agreement.

13. YOUR ORGANIZATION AND MANAGEMENT

A. Organization Documents. You must be a legal entity such as a business corporation, partnership, limited liability company or other legal entity formed and used for the purpose of developing and holding franchises to operate Franchised Cafes. You represent, warrant and agree that: (1) you are duly organized and validly existing under the laws of the state of your organization; (2) you are duly qualified to transact business in the state in which the Franchised Cafe is located; (3) your governing documents permit execution of this Agreement and the development and operation of the Franchised Cafe; and (4) unless waived in writing by us, your governing documents shall at all times provide that your activities are restricted to those necessary solely for the development, ownership and operation of the Franchised Cafe in accordance with this Agreement and any other agreements entered into with CBC or our affiliates.

B. Governing Documents. Upon request by us, you shall promptly deliver to us, as applicable, true and complete copies of the articles or certificate of incorporation, partnership agreement, bylaws, subscription agreements, buy-sell agreements, voting trust agreements and all other documents relating to your ownership, organization, capitalization, management and control and all amendments thereto. When any of these governing documents are modified or changed, you promptly shall provide copies to us. You may not change the form of your entity unless we mutually agree in writing that such a change is warranted.

C. Ownership Interests

(1) If you are a corporation, limited liability company or partnership, all interests in you are owned as set forth in attached Appendix D. In addition, if you are a corporation, you shall maintain a

current list of all owners of record and all beneficial owners of any class of voting securities of the corporation (and the number of shares owned by each). If you are a limited liability company, you shall maintain a current list of all members (and the percentage membership interest of each member). If you are a partnership, you shall maintain a current list of all owners of an interest in the partnership (and the percentage ownership of each owner). You shall comply with the requirements of Section 15 prior to any change in ownership interests and shall sign addenda to Appendix D as changes occur in order to ensure the information contained in Appendix D is true, accurate and complete at all times.

(2) The requirements of this Section 13.C. shall apply only to your Continuity Group (defined in Section 13.F.) if, as of the date of the first franchise-related agreement between you and us and/or one of our affiliates, you were a publicly-held entity (i.e., an entity that has a class of securities traded on a recognized securities exchange or quoted on the inter-dealer quotation sheets known as the "pink sheets"). If you become a publicly-held entity after that date, you shall thereafter be required to sign addenda to Appendix D only with respect to changes in ownership interests of the Continuity Group.

D. **Restrictive Legend.** If you are a corporation, you shall maintain stop-transfer instructions against the transfer on the records of any voting securities, and each stock certificate of the corporation shall have conspicuously endorsed upon its face the following statement: "Any assignment or transfer of this stock is subject to the restrictions imposed on assignment by the Corner Bakery Cafe Franchise Agreement(s) to which the corporation is a party." If you are a publicly-held corporation, these requirements shall apply only to the stock owned by your Continuity Group. If you are a limited liability company, each membership or management certificate shall have conspicuously endorsed upon its face the following statement: "Any assignment or transfer of an interest in this limited liability company is subject to the restrictions imposed on assignment by the Corner Bakery Cafe Franchise Agreement(s) to which the limited liability company is a party." If you are a partnership, your written partnership agreement shall provide that ownership of an interest in the partnership is held, and that further assignment or transfer thereof, is subject to all restrictions imposed on assignment by this Agreement.

E. **Personal Guaranty**

(1) All members of the Continuity Group and your Operating Partner shall jointly and severally personally guarantee your payment and performance under this Agreement and personally bind themselves to the terms of this Agreement pursuant to the attached Personal Guaranty. Unless you are a publicly-held entity, all of your officers, directors, limited liability company managers and OwnersPrincipals also shall jointly and severally guarantee your payment and performance under this Agreement and bind themselves to the terms of this Agreement pursuant to the attached Personal Guaranty. Notwithstanding the foregoing, we reserve the right, in our sole discretion, to waive the requirement that some or all of the previously described individuals sign the attached Personal Guaranty. We reserve the right to require any guarantor to provide personal financial statements to us from time to time.

(2) With respect to your OwnersPrincipals, you acknowledge that, unless otherwise agreed to in writing by us, it is our intent to have individuals (and not corporations, limited liability companies or other entities) sign the Personal Guaranty. Accordingly, if any OwnerPrincipal is not an individual, we shall have the right to require individuals who have only an indirect ownership interest in you to sign the Personal Guaranty. (By way of example, if an OwnerPrincipal is a corporation, we have the right to require individuals who have an ownership interest in that corporation to sign the Personal Guaranty.)

(3) If you, any OwnerPrincipal, guarantor or any parent, subsidiary or affiliate of yours holds any interest in other restaurants that are franchised by CBC or our affiliates, the party who owns that interest shall sign, concurrently with this Agreement, a form of cross-guarantee to CBC and our affiliates for the payment of all obligations for such restaurants, unless waived in writing by us in our sole discretion. For purposes of this Agreement, an affiliate of yours is any company controlled, directly or indirectly, by you or your parent or subsidiary.

F. Continuity Group. If you are a corporation, limited liability company or partnership, Appendix D lists those persons whom you and we have designated as your "Continuity Group." In the event of any change in the Continuity Group or in the ownership interests of any member of the Continuity Group, you shall sign addenda to Appendix D to reflect the change. If you are a corporation, the Continuity Group shall at all times own at least 66% of your voting securities; if you are a limited liability company, the Continuity Group shall at all times own at least 66% of your membership interests; and if you are a partnership, the Continuity Group shall at all times have at least a 66% interest in the operating profits and losses and at least a 66% ownership interest in you.

G. Operating Partner. You must designate an individual whom we have approved to serve as your Operating Partner. The Operating Partner as of the date of this Agreement is identified in Appendix D. The Operating Partner will be the person with whom we communicate as to operations matters and must have the authority to bind you with respect to all operational decisions relating to the Franchised Cafe. The Operating Partner shall meet all of the following qualifications:

(1) The Operating Partner must own and control, or have the right to own and control (subject to terms and conditions reasonably acceptable to us), not less than a 10% interest in your equity and voting rights. This Section 13.G.(1) shall not apply if you were a publicly-held entity or a wholly-owned subsidiary of a publicly-held entity as of the date of the first franchise-related agreement between you and us.

(2) The Operating Partner, at all times, shall be a member of the Continuity Group and, at a minimum, have full control over and devote his or her best efforts to supervising the day-to-day operation of the Franchised Cafe and all other Franchised Cafes that you operate unless you have named and we have approved a Multi-Unit Manager. The Operating Partner shall not, without our prior written approval, engage in any other business or activity, directly or indirectly, that requires substantial management responsibility or time commitments or otherwise may conflict with your obligations under this Agreement. You agree to provide us with an executed copy of any arrangement, agreement or contract, and all amendments thereto, between you and your Operating Partner related to the operation of the Franchised Cafe.

(3) The Operating Partner must complete our initial training program and any additional training programs that we require to our satisfaction.

(4) The Operating Partner must maintain a primary residence within a 100-mile radius of the Franchised Cafe.

(5) We must have approved the Operating Partner and not have later withdrawn that approval.

(6) If the Operating Partner no longer qualifies as such, you must designate another qualified person to act as the Operating Partner within 30 days after the date the prior Operating Partner ceases to be qualified. Your designee must satisfy the criteria set forth in this Section 13.G., be approved by us, and sign a Personal Guaranty in our favor.

H. Multi-Unit Manager. If you or your affiliates own or control more than three Franchised Cafes and your Operating Partner requests our consent to devote less than full time to supervising the operation of the Franchised Cafes, you also shall designate and retain an individual to serve as the Multi-Unit Manager of up to eight Franchised Cafes under the supervision of the Operating Partner. You must designate additional Multi-Unit Managers for every eight Franchised Cafes that you operate. The Multi-Unit Manager shall meet all of the following qualifications:

(1) The Multi-Unit Manager shall devote full time and best efforts to supervising the operation of the Franchised Cafe and up to eight other Franchised Cafes and shall not engage in any other business or activity, directly or indirectly, that requires substantial management responsibility or time

commitments or otherwise may conflict with your obligations under this Agreement. You agree to provide us with an executed copy of any arrangement, agreement or contract, and all amendments thereto, between you and your Multi-Unit Manager related to the operation of Corner Bakery Cafes.

(2) The Multi-Unit Manager shall successfully complete our initial training program and any additional training that we require.

(3) We must have approved the Multi-Unit Manager and not have later withdrawn that approval.

(4) If the Multi-Unit Manager no longer qualifies as such, you shall designate another qualified person to act as Multi-Unit Manager within 30 days after the date the prior Multi-Unit Manager ceases to be qualified. Your designee to become the Multi-Unit Manager must successfully complete our initial training program and any additional training that we require.

14. TRANSFERS BY US

We shall have the absolute, unrestricted right, exercisable at any time, to transfer and assign all or any part of our rights and obligations under this Agreement to any person or legal entity without your consent.

15. TRANSFERS BY YOU

A. **Our Prior Written Consent Required.** You understand and acknowledge that the rights and duties set forth in this Agreement are personal to you and that we have entered into this Agreement in reliance on your and your ~~Owners~~Principals' business skill, financial capacity, personal character, experience and demonstrated or purported ability to develop and operate high quality foodservice operations. Accordingly, neither you, your ~~Owners~~Principals, nor any immediate or remote successor to any part of your interest in this Agreement shall sell, assign, transfer, convey, give away, pledge, mortgage, or otherwise encumber any interest in you, this Agreement, the Franchise, substantially all the assets of the Franchised Cafe, the Franchised Location or any other assets pertaining to your operations under this Agreement (collectively "Transfer") without obtaining our prior written consent. Notwithstanding the foregoing, you may grant a security interest in, or otherwise encumber certain assets of the Franchised Cafe, excluding the Franchise Agreement, in connection with obtaining financing for the development and/or operation of the Franchised Cafe or equipment leasing, if such financing satisfies our requirements, which may include, without limitation, execution of agreements by CBC, you and your owners and your secured creditor, in a form satisfactory to us, acknowledging such creditor's obligations to be bound by the terms of this Section 15. Except as otherwise provided in this Agreement, any purported Transfer, by operation of law or otherwise, not having our prior written consent shall be null and void and shall constitute a material breach of this Agreement, for which we may terminate this Agreement without providing you an opportunity to cure the breach.

B. **Transfer Considerations.** You shall advise us in writing of any proposed Transfer and submit (or cause the proposed transferee to submit) a franchise application for the proposed transferee, a copy of all contracts and all other agreements or proposals, and all other information requested by us relating to the proposed Transfer. If we do not exercise our right of first refusal as described in Section 15.4, the decision as to whether or not to consent to a proposed Transfer shall be made by us in our sole discretion and shall include numerous factors deemed relevant by us. These factors may include, but will not be limited to, the following:

(1) You and your ~~Owners~~Principals and affiliates must be in compliance with the provisions of this Agreement and all other agreements with us and our affiliates.

(2) All of your accrued monetary obligations to us and our affiliates (whether arising under this Agreement or otherwise) and all other outstanding obligations related to the Franchised Cafe

(including, but not limited to, bills from suppliers, taxes, judgments and any required governmental reports, returns, affidavits or bonds) have been satisfied or, in our reasonable judgment, adequately provided for. We may require you to place a reasonable sum of money in escrow to ensure that all of these obligations are satisfied.

(3) The proposed transferee must: be an entity, and its owners must provide to us on a timely basis all information that we request. The proposed transferee must meet our then-current criteria for new franchisees and be approved by us, and the proposed transferee's owners must be individuals who are of good character and reputation and who have sufficient business experience, aptitude and financial resources to operate the Franchised Cafe.

(4) The proposed transferee's Operating Partner, Multi-Unit Manager (if applicable) General Manager, Managers, managers and any other personnel whom we designate must complete our initial training program or must be currently certified by us to operate and/or manage a Cerner Bakery Cafe to our satisfaction and pay all fees in connection with such training.

(5) You and all guarantors of your obligations must execute a general release and a covenant not to sue, in a form satisfactory to us, of any and all claims against us and our affiliates and our respective past and present officers, directors, shareholders, agents and employees, in their corporate and individual capacities, including, without limitation, claims arising under federal, state and local laws, rules and ordinances, and claims arising out of, or relating to, this Agreement, any other agreements between you and us or our affiliates and your operation of the Franchised Cafe and all other Franchised Cafes that you operate.

(6) The debt service shall not be so high, in our reasonable judgment, as to jeopardize the ability of the proposed transferee to develop, maintain, operate and promote the Franchised Cafe and meet financial obligations to us, third party suppliers and creditors. Our decision with respect to a proposed Transfer shall not create any liability on our part: (a) to the proposed transferee, if we consent to the Transfer and the proposed transferee experiences financial difficulties; or (b) to you or the proposed transferee, if we disapprove the Transfer pursuant to this Section 15. We, without any liability to you or the proposed transferee, have the right, in our sole discretion, to communicate with, and counsel, you and the proposed transferee regarding any aspect of the proposed Transfer.

(7) The proposed transferee must obtain a leasehold or an ownership interest in the Franchised Location and obtain all required licenses from all applicable authorities for the Franchised Cafe.

(8) If you (or any of your OwnersPrincipals or affiliates, if applicable) finance any part of the sale price of the transferred interest, you and/or your OwnersPrincipals or affiliates must agree that all obligations of the proposed transferee to you (and/or your OwnersPrincipals or affiliates, as applicable), and any security interests reserved by you (and/or your OwnersPrincipals or affiliates, as applicable) in the assets transferred will be subordinate to the proposed transferee's obligations to pay all amounts due to us and our affiliates and to comply otherwise with this Agreement or any Franchise Agreement signed by us and the proposed transferee.

(9) You and your OwnersPrincipals must sign a non-competition covenant, in form and substance satisfactory to us, in favor of us and the proposed transferee agreeing that, for a period of two years, starting on the effective date of the Transfer, you and your OwnersPrincipals will not directly or indirectly, such as through members of their immediate families (including a spouse, parent, sibling or adult child, whether natural or adopted), own any legal or beneficial interest in, or render services or give advice to any Competitive Business as defined in Section 17.C.(2)(c) that is located within a 10-mile radius of any Comer Bakery Cafe or within any area that is within a Development Area or Protected Area, as those terms are defined in any Corner Bakery Cafe Area Development Agreement or Franchise Agreement; provided, however that such restriction will not apply to ownership of less than a 10% legal or beneficial ownership in the outstanding equity securities of any publicly held corporation by you or your OwnersPrincipals.

(10) You and your OwnersPrincipals must sign such other documents and do such other things as we may reasonably require to protect our rights under this Agreement.

C. Transfer Procedures. If we consent to a proposed Transfer, prior to the Transfer becoming effective:

(1) the transferee and its owners must enter into an assignment agreement and any amendments to this Agreement that we require and agree to be bound by all of the provisions of this Agreement for the remainder of the Initial Term or, at our option, sign our then-current Franchise Agreement, which may provide for different Royalty Fees, marketing contributions and expenditures, duration and other rights and obligations than those provided in this Agreement;

(2) the transferee's owners must sign a personal guaranty of the transferee's obligations; and

(3) you or the transferee must pay us a Transfer fee equal to \$3,500 (or the amount set forth in our then-current Franchise Agreement used for new franchises), plus our costs associated, including our outside counsel costs, in connection with evaluating the any such Transfer; and,

~~(4) your Owners shall, at our request, sign a written guaranty pursuant to which your Owners shall remain personally liable for all obligations to us incurred before the effective date of the Transfer and for a period of one year following the effective date of the Transfer.~~

D. Effect of Our Consent. Our consent to a Transfer does not constitute: (1) a representation as to the fairness of the terms of any agreement or arrangement between you or your OwnersPrincipals and the transferee or the prospects of the transferee's success in operating the Franchised Cafe; or (2) a release of you and your OwnersPrincipals, a waiver of any claims against you or your OwnersPrincipals or a waiver of our right to demand the transferee's compliance with this Agreement. Our consent to any Transfer shall apply only to the specific Transfer being proposed and shall not constitute consent to, or have any bearing on, any other proposed Transfer. Our consent to a Transfer will not create any liability on our part to the transferee, if the transferee experiences financial difficulties, and our refusal to consent to a Transfer will not create any liability on our part to you, your OwnersPrincipals, or the transferee, if our refusal is pursuant to this Section 15. We, without incurring any liability to you or the transferee, have the right, in our sole discretion, to communicate with, and counsel, you (and your OwnersPrincipals), the transferee (and its owners) and either party's representatives regarding any proposed Transfer.

E. Permitted Transfers. Notwithstanding the provisions of Section 15.A. and 15.B., we agree that certain Transfers shall be permitted without our prior written approval and without the payment of a Transfer fee, provided all of the following conditions are satisfied:

(1) The Transfer is a transfer of:

(a) a minority percentage of ownership interests in you if, after the Transfer, the Continuity Group owns at least 66% of your voting securities if you are a corporation; the Continuity Group owns at least 66% of the membership interests in you if you are a limited liability company; or the Continuity Group owns at least a 66% interest in your operating profits and losses as well as at least a 66% ownership interest in you if you are a partnership.

(b) ownership interests in you following the death or permanent disability of any of your OwnersPrincipals or your Operating Partner, provided that the Transfer is to the parent, sibling, spouse or adult children of that person or to a member of the Continuity Group. Such Transfer shall be completed within a reasonable time, not to exceed six months from the date of death or permanent disability. Failure to complete the Transfer within this period of time will constitute a breach of this Agreement. A person shall be deemed to have a "permanent disability" if his personal, active participation in the

development and operation of the Franchised Cafe is for any reason curtailed for a continuous period of six months.

(2) You provide to us written notice of your intent to undertake the Transfer at least 30 days prior to the effective date of the Transfer, together with any documents that we may request demonstrating that the Transfer meets the requirements of this Section 15.E.

(3) At the time of your notice to us, you shall not be in material default of this Agreement or any other agreements between you and CBC or our affiliates beyond any applicable cure period.

(4) Our right of first refusal described in section 15.I. shall not apply to Permitted Transfers under this Section 15.E.

F. Transfers for Convenience of Ownership. Neither our right of first refusal described in Section 15.I. nor our right to collect a Transfer fee as provided by Section 15.C.(3) shall apply to any Transfer of this Agreement to a corporation (or limited liability company) formed for the convenience of ownership. Our consent to the Transfer will be conditioned on the following: (1) the corporation (or limited liability company) must be newly organized; (2) prior to the Transfer, we must receive a copy of the documents specified in Section 13.B., and the transferee shall comply with the remaining provisions of Section 13; and (3) each owner shall have the same proportionate ownership interest in the corporation (or the limited liability company) as prior to the Transfer.

~~G. Grant of Security Interest. You shall not grant any security interest in your business, the Franchised Cafe, the Franchised Location or substantially all of the assets used in the operation or development of the Franchised Cafe without our prior written consent, which will not be unreasonably withheld. Our consent may be conditioned, in our sole discretion, on the written agreement by the secured party that, in the event of a default by you under any agreement related to the security interest, we shall have the right and option (but not the obligation) to purchase the rights of the secured party upon payment of all sums then due to the secured party.~~

H.G. Offerings by You. Securities or partnership interests in you may be sold, by private placement or public offering, only with our prior written consent (whether or not our consent is required under any other provision of this Agreement), which consent shall not be unreasonably withheld. In addition to the requirements of Section 15.B., prior to the time that any public offering or private placement of securities or partnership interests in you is made available to potential investors, you, at your expense, shall deliver to us a copy of the offering documents. You, at your expense, also shall deliver to us an opinion of your legal counsel and an opinion of one other legal counsel selected by us (both of which shall be addressed to us and in a form acceptable to us) that the offering documents properly use the Marks and accurately describe your relationship with us and/or our affiliates. The indemnification provisions of Section 22 also shall include any losses or expenses incurred by us and/or our affiliates in connection with any statements made by or on behalf of you in any public offering or private placement of your securities.

I.H. Changes in Ownership of Voting Securities. If you were a publicly-held entity as of the Effective Date, Section 15.B. shall be applicable to Transfers of ownership interests in you only if the proposed Transfer would result in: (1) 50% or more of your voting securities being held by different shareholders than as of the Effective Date; (2) any change in ownership of your voting securities whereby any existing shareholder acquires an additional 10% or more of your voting securities; or (3) any change in the membership of the Continuity Group (unless such change is a permitted Transfer pursuant to Section 15.E.).

J.I. Our Right of First Refusal

(1) If you or any of your ~~Owners~~Principals desire to undertake a Transfer for legal consideration, you or such ~~Owner~~Principal must obtain a bona fide, signed written offer from a responsible and fully disclosed purchaser and must deliver immediately to us a complete and accurate copy of such

offer, including price and payment terms. If the offeror proposes to buy any other property or rights from you or any of your OwnersPrincipals or affiliates (other than rights under this Agreement) as part of the bona fide offer, the proposal for such property or rights must be set forth in a separate, contemporaneous offer that is fully disclosed to us. In addition, upon our request, you must also provide to us copies of all materials and information provided to the potential purchaser.

(2) We have the right, exercisable by notice delivered to you or your OwnersPrincipals within 30 days after our receipt of a complete and accurate copy of such offer, to purchase such interest for the price and on the terms and conditions contained in such offer, provided that: (a) we may substitute cash for any form of payment proposed in such offer; (b) our credit shall be deemed equal to the credit of any proposed purchaser; (c) we shall not be obligated to pay any finder's or broker's fees; and (d) we will have not less than 90 days from the date we exercise the right to close on the transaction. We have the right to investigate and analyze the business, assets and liabilities and all other matters we deem necessary or desirable in order to make an informed investment decision with respect to the fairness of the terms of the proposed transaction. We may conduct such investigation and analysis in any manner we deem reasonably appropriate, and you and your OwnersPrincipals must cooperate fully with us.

(3) If we exercise our right of first refusal, we are entitled to set off any monies owed by you to us and purchase such interest, subject to all representations, warranties, closing documents and indemnities as we reasonably may require, provided that, if we exercise our option as a result of a written offer reflected in a fully negotiated, definitive agreement with the proposed purchaser, we will not be entitled to any additional representations, warranties, closing documents or indemnities that will have a materially adverse effect on your rights and obligations under the definitive agreement.

(4) Our failure to exercise our right of first refusal shall not constitute approval of the proposed Transfer nor a waiver of any other provision of this Section 15 with respect to a proposed Transfer. If we do not exercise our right of first refusal, you or your OwnersPrincipals may complete the sale to such offeror pursuant to and on the exact terms of such offer, subject to our consent to the Transfer as provided in Section 15.B., provided that if the sale to such offeror is not completed within 100 days after receipt of our notice of our decision not to exercise our right of first refusal, or if there is a material change in the terms of the offer, you must promptly notify us, and we will have an additional right of first refusal (on the terms of the revised offer, if any, and otherwise as set forth herein) during the 30-day period following your notification of the expiration of the 100-day period or the material change to the terms of the offer.

16. GENERAL RELEASE

You (on behalf of yourself and your parent, subsidiaries and affiliates and their respective past and present members, officers, directors, shareholders, agents and employees, in their corporate and individual capacities) and all guarantors of your obligations under this Agreement (collectively, "Releasors") freely and without any influence forever release and covenant not to sue us, our parent, subsidiaries and affiliates and their respective past and present officers, directors, shareholders, agents and employees, in their corporate and individual capacities (collectively "Releasees"), with respect to any and all claims, demands, liabilities and causes of action of whatever kind or nature, whether known or unknown, vested or contingent, suspected or unsuspected (collectively, "claims"), which any Releasor now owns or holds or may at any time have owned or held, including, without limitation, claims arising under federal, state and local laws, rules and ordinances and claims arising out of, or relating to this Agreement and all other agreements between any Releasor and any Releasee, the sale of any franchise to any Releasor, the development and operation of the Franchised Cafe and the development and operation of all other restaurants operated by any Releasor that are franchised by any Releasee. You expressly agree that fair consideration has been given by us for this General Release and you fully understand that this is a negotiated, complete and final release of all claims. This General Release does not release any claims arising from representations made in our Franchise Disclosure Document and its exhibits or otherwise impair or affect any claims arising after the date of this Agreement.

17. COVENANTS

A. Best Efforts. During the term of this Agreement, you and your Operating Partner shall devote your best efforts to the development, management and operation of the Franchised Cafe.

B. Confidentiality

(1) Pursuant to this Agreement, you will have access to our proprietary and confidential information relating to the development, management and operation of Comer Bakery Cafes ("Confidential Information"), which may include the following: (a) ingredients, recipes and methods of preparation and presentation of authorized food products; (b) site selection criteria for Comer Bakery Cafes and plans and specifications for the development of Comer Bakery Cafes; (c) sales, marketing and advertising programs and techniques for Comer Bakery Cafes; (d) identity of suppliers and knowledge of specifications, processes, procedures and equipment, contract terms, and pricing for authorized food products, materials, supplies and equipment; (e) knowledge of operating results and financial performance of Comer Bakery Cafes, other than Franchised Cafes that you own; (f) methods of inventory control, storage, product handling, training and management relating to Comer Bakery Cafes; (g) computer systems and software programs used or useful in Comer Bakery Cafes; and (h) any information that we provide you that is labeled proprietary or confidential.

(2) You acknowledge that: (a) we own all right, title and interest in and to the System; (b) the System consists of trade secrets, Confidential Information and know-how that gives us and our affiliates a competitive advantage; (c) we and our affiliates have taken all measures necessary to protect the trade secrets, Confidential Information and know-how comprising the System; (d) all Confidential Information now or hereafter provided or disclosed to you regarding the System is disclosed in confidence; (e) you have no right to disclose any Confidential Information to anyone who is not an employee, agent or independent contractor of yours; (f) you will disclose to your employees only those parts of the System that an employee, agent or independent contractor needs to know; (g) you will have a system in place to ensure that your employees, agents and independent contractors keep confidential our trade secrets and Confidential Information, and, if requested by us, you shall obtain from those of your employees designated by us an executed Confidential Disclosure Agreement in the form prescribed by us; (h) you will not acquire any ownership interest in the System; and (i) your use or duplication of the System or any part of the System in any other business would constitute an unfair method of competition, for which we would be entitled to all legal and equitable remedies, including injunctive relief, without posting a bond.

(3) You shall not, during the term of this Agreement or at any time thereafter, communicate or disclose any trade secrets, Confidential Information or know-how of the System to any unauthorized person, or do or perform, directly or indirectly, any other acts injurious or prejudicial to any of the Marks or the System. Any and all proprietary information, knowledge, know-how and techniques, including all drawings, materials, equipment, specifications, recipes, techniques and other data that we or our affiliates designate as Confidential Information, shall be deemed Confidential Information for purposes of this Agreement.

(4) The specific terms of this Agreement and all other agreements entered into by the parties and all drafts, amendments, attachments and exhibits to such agreements, (collectively referred to as "this Agreement" for purposes of this provision) are confidential and shall not be disclosed by any party without mutual agreement of the parties evidenced by a signed writing by all parties, except as we deem desirable or necessary to meet our financing and sales of securities needs or as necessary to comply with applicable law. Either party may disclose the specific terms of this Agreement to its respective accountants, attorneys and professional advisors.

C. Restrictions

(1) You acknowledge and agree that: (a) pursuant to this Agreement, you will have access to valuable trade secrets, specialized training and Confidential Information from us and our affiliates regarding the development, operation, management, purchasing, sales and marketing methods and techniques of the System; (b) the System and the opportunities, associations and experience established by

us and acquired by you under this Agreement are of substantial and material value; (c) in developing the System, we and our affiliates have made and continue to make substantial investments of time, technical and commercial research, and money; (d) we would be unable to adequately protect the System and its trade secrets and Confidential Information against unauthorized use or disclosure and would be unable to adequately encourage a free exchange of ideas and information among Corner Bakery Cafes if franchisees were permitted to hold interests in Competitive Businesses (as defined in Section 17.C.(2)(c)); and (e) restrictions on your right to hold interests in, or perform services for, Competitive Businesses will not unreasonably or unnecessarily hinder your activities.

(2) Accordingly, you covenant and agree that, during the term of this Agreement and for a continuous period of two years following the expiration, termination or Transfer of this Agreement, you shall not directly, indirectly, for yourself, or through, on behalf of, or in conjunction with, any person, firm, partnership, corporation, or other entity or in any manner whatsoever:

(a) Divert or attempt to divert any actual or potential business or customer of Corner Bakery Cafes to any competitor or otherwise take any action injurious or prejudicial to the goodwill associated with the Marks and the System.

(b) Employ or seek to employ any person who is then employed by us or any other Corner Bakery Cafe franchisee or developer, or otherwise directly or indirectly induce such person to leave his or her employment. In addition to any other rights and remedies available to us under this Agreement, in the event of a violation of this Section 17.C.(2)(b), we may elect, in our sole discretion, to require you to pay to us (or such other Corner Bakery Cafe developer or franchisee, as the case may be) an amount equal to three times the annual salary of the person(s) involved in such violation, plus an amount equal to our costs and attorney's fees incurred in connection with such violation.

(c) Own, maintain, develop, operate, engage in, franchise or license, make loans to, or have any interest in or render services or give advice to any "Competitive Business," which is defined as any business in the casual dining market or fast-casual segment of the restaurant industry that: (i) is substantially engaged in the selling of the following menu items: artisan baked breads, salads, sandwiches, soups, baked goods and/or coffee; or (ii) whose method of operation or trade dress is similar to that employed in the Corner Bakery System.

(3) During the term of this Agreement, there is no geographical limitation on these restrictions. During the 2-year period following the expiration or earlier termination of this Agreement, these restrictions shall apply within the Protected Area and within 10 miles of any then-existing Corner Bakery Cafe, except as otherwise approved in writing by us. These restrictions shall not apply to your existing restaurant or foodservice operations, if any, which are identified in Appendix A, nor shall it apply to other restaurants operated by you that are franchised by CBC or our affiliates.

(4) You further covenant and agree that, for a period of two years following the expiration, termination or Transfer of this Agreement, you will not, either directly or indirectly, for yourself, or through, on behalf of, or in conjunction with any person, firm, partnership, corporation, or other entity, sell, assign, lease or transfer the Franchised Location to any person, firm, partnership, corporation, or other entity that you know, or have reason to know, intends to operate a Competitive Business at the Franchised Location. You, by the terms of any conveyance selling, assigning, leasing or transferring your interest in the Franchised Location, shall include these restrictive covenants as are necessary to ensure that a Competitive Business that would violate Section 17.C.(2)(c) or 17.C.(4) is not operated at the Franchised Location for this 2-year period, and you shall take all steps necessary to ensure that these restrictive covenants become a matter of public record.

(5) If any part of this Section 17.C. is found to be unreasonable in time or distance, each month of time or mile of distance may be deemed a separate unit so that the time or distance may be reduced by appropriate order of the court to that deemed reasonable. If, at any time during the 2-year period following expiration, termination or Transfer of this Agreement, you fail to comply with your obligations under

this Section 17.C., that period of noncompliance will not be credited toward your satisfaction of the 2-year obligation.

D. **Modification.** We shall have the right, in our sole discretion, to reduce the scope of any covenant in this Section 17 effective immediately upon your receipt of written notice, and you agree that you shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Section 26.

E. **Execution of Covenants by Third Parties.** At our request, you shall require and obtain the execution of covenants similar to those set forth in this Section 17 (including covenants applicable upon the termination of an individual's relationship with you) from all guarantors of your obligations. Every covenant required by this Section 17.E. shall be in a form satisfactory to us, including, without limitation, specific identification of CBC as a third party beneficiary of such covenants with the independent right to enforce them. Failure by you to obtain execution of a covenant required by this Section 17.E. shall constitute a material breach of this Agreement.

F. **Survival.** The terms of this Section 17 shall survive the termination, expiration, or any Transfer of this Agreement. The parties agree this Section 17 shall be construed as independent of any other provision of this Agreement.

G. **Applicability.** The restrictions contained in this Section 17 shall apply to you and all guarantors of your obligations. With respect to your guarantors, these restrictions shall apply for a 2-year period after the earlier of (1) the expiration, termination or Transfer of this Agreement; or (2) the date any guarantor ceases to be an officer, director, limited liability company manager, ~~Owner~~**Principal** or member of the Continuity Group. The restrictions contained in this Section 17 shall not apply to ownership of less than a 10% legal or beneficial ownership in the outstanding equity securities of any publicly held corporation by you or any guarantor of your obligations. The existence of any claim that you or any of your guarantors may have against CBC or our affiliates, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by us of the covenants in this Section 17. The preceding sentence, however, does not constitute a waiver of any such claim.

18. DEFAULT AND TERMINATION

A. **Material Obligations.** You acknowledge and agree that each obligation described in this Agreement is a material and essential obligation of yours; that nonperformance of any such obligation will adversely and substantially affect us and the System; and that our exercise of any of the rights and remedies set forth in this Section 18 are appropriate and reasonable.

B. **Termination Without Cure Period.** In addition to the grounds for termination that may be stated elsewhere in this Agreement, we may terminate this Agreement, and the rights granted to you by this Agreement, upon written notice to you without an opportunity to cure upon the occurrence of any of the following events:

(1) You cease to operate continuously the Franchised Cafe for a period in excess of three consecutive days, unless the closing is due to fire, flood, earthquake or other similar causes beyond your control or is approved in writing in advance by us.

(2) You are insolvent or unable to pay your creditors (including us); you file a petition in bankruptcy, an arrangement for the benefit of creditors or a petition for reorganization; there is filed against you a petition in bankruptcy, an arrangement for the benefit of creditors or petition for reorganization that is not dismissed within 60 days of the filing; you make an assignment for the benefit of creditors; or a receiver or trustee is appointed for you and not dismissed within 60 days of the appointment.

(3) Execution is levied against your business or property; suit to foreclose any lien or mortgage against the premises or equipment of the Franchised Cafe is instituted against you and is not

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dismissed within 60 days; or the real or personal property of the Franchised Cafe shall be sold after levy thereupon by any sheriff, marshal or constable.

(4) You allow a judgment in excess of \$25,000 against you to remain unsatisfied for a period of more than 30 days (unless a supersedeas or other appeal bond has been filed).

(5) There is a material breach by you of any covenant or obligation under Section 17.

(6) Any Transfer that requires our prior written consent occurs without your having obtained that prior written consent.

(7) We discover that you made a material misrepresentation in or omitted a material fact from the information that you provided to us in connection with our decision to enter into this Agreement.

(8) You knowingly falsify any report required to be furnished to us or make any material misrepresentation in your dealings with us or fail to disclose any material facts to us.

(9) We make a reasonable determination that your continued operation of the Franchised Cafe will result in an imminent danger to public health or safety.

(10) You lose possession of the Franchised Location through your own fault or your failure to extend the lease for the Franchised Location through the Initial Term.

(11) You, your Operating Partner, any member of the Continuity Group, or any ~~Owner~~Principal are convicted of, or plead no contest to, a felony charge, a crime involving moral turpitude, or any other crime or offense that is reasonably likely, in our sole opinion, to adversely affect us, our affiliates or the System.

(12) There is a material breach by you of any representation or warranty set forth in Sections 29.G. or 30.F.-G.

(13) You misuse or make any unauthorized use of the Marks or otherwise materially impair the goodwill associated with the Marks or our rights in the Marks.

(14) You fail or refuse to have the required number of your employees attend and successfully complete the training programs described in Section 9.

(15) Any assets, property, or interests of yours or your ~~Owners~~Principals are blocked under any law, ordinance, or regulation relating to terrorist activities, or you or any ~~Owner~~Principal violate any such law, ordinance or regulation.

(16) You, your Operating Partner, any member of the Continuity Group or any ~~Owner~~Principal: (a) remain in default beyond the applicable cure period under any other agreement with CBC or our affiliates (provided that, if the default is not by you, we shall provide to you written notice of the default and a 30-day period to cure the default); (b) remain in material default beyond the applicable cure period under any real estate lease, equipment lease, financing instrument or supplier contract relating to the Franchised Cafe; (c) fail to pay when due any taxes or assessments relating to the Franchised Cafe or its employees, unless you are actively prosecuting or defending the claim or suit in a court of competent jurisdiction or by appropriate government administrative procedure or by arbitration or mediation conducted by a recognized alternative dispute resolution organization.

C. Termination Following Expiration of Cure Period.

(1) Except for those items listed in preceding Section 18.B., you shall have 30 days after written notice of default from us within which to remedy the default and provide evidence of that remedy to us. If any such default is not cured within that time, this Agreement shall terminate without further notice to you effective immediately upon expiration of that time, unless we notify you otherwise in writing. Notwithstanding the foregoing, if the default cannot be corrected within 30 days, you shall have such additional time to correct the default as reasonably required (not to exceed 90 days), provided that you begin taking the actions necessary to correct the default during the 30-day cure period and diligently and in good faith pursue those actions to completion. You will be in default under this Section 18.C. for any failure to comply materially with any of the requirements imposed by this Agreement, the Manual or otherwise in writing, or to carry out the terms of this Agreement in good faith.

(2) Notwithstanding the provisions of preceding Section 18.C.(1), if you default in the payment of any monies owed to us when such monies become due and payable and you fail to pay such monies within 10 days after receiving written notice of default, then this Agreement will terminate effective immediately upon expiration of that time, unless we notify you otherwise in writing.

(3) If you have received two or more notices of default within the previous 12 months, we shall be entitled to send you a notice of termination upon your next default within that 12-month period under this Section 18.C. without providing you an opportunity to remedy the default.

D. Termination Following Inspection. We shall have the right to conduct periodic inspections of the Franchised Cafe to evaluate your compliance with the System and this Agreement. Following each inspection, we will provide you an inspection report listing your score on the inspection and those conditions at the Franchised Cafe that must be rectified. If you fail to achieve a passing score on an inspection, the inspection report shall constitute a notice of default. If you fail to achieve a passing score on the next inspection (which shall be conducted at least 10 days after your receipt of the inspection report for the prior inspection), we may terminate this Agreement, without opportunity to cure, by providing you written notice of termination along with the inspection report.

E. Continuing Royalty Fee Upon Termination. Should this Agreement terminate due to a material breach or default by you, you shall pay to us for a period of four years (or the remainder of the Initial Term if that period is less than four years) a continuing Royalty Fee (as partial compensation for the future fees that would have been paid by you under this Agreement) in an amount equal to the total Royalty Fees due from you for the 52 Reporting Periods preceding the termination divided by 52. If the Franchised Cafe was open fewer than 52 Reporting Periods, then the average of all Reporting Periods for which the Franchised Cafe was open shall be used. If we sell a new franchise for a Corner Bakery Cafe in your Protected Area, we will permit you to cease making the continuing Royalty Fee payments to us. Your payment of the continuing Royalty Fees to us shall be in addition to all amounts provided in Section 19.A. and any attorney's fees and other costs and expenses to which we are entitled pursuant to Sections 4.H. and 26. Your payment of the continuing Royalty Fee shall not affect our right to obtain appropriate injunctive relief and remedies to enforce Section 17 and specific performance to enforce Section 19.

F. Statutory Limitations. If any valid, applicable law or regulation of a competent governmental authority with jurisdiction over this Agreement requires a notice or cure period prior to termination longer than set forth in this Section, this Agreement shall be deemed amended to conform to the minimum notice or cure period required by the applicable law or regulation.

G. Notice to Lender. By executing this Agreement, you agree that we have the right and authority (but not the obligation) to notify the financial institution that provided you with financing that enabled you to purchase the Franchised Cafe ("Lender"), if any, if you should ever be in default of this Agreement. You shall provide us with the name, address and telephone number of your contact at the Lender upon our request.

19. OBLIGATIONS ON TERMINATION OR EXPIRATION

A. Your Obligations. Upon termination or expiration of this Agreement:

(1) All rights and licenses granted to you under this Agreement (including, without limitation, rights to use the System, the Manual, and the Marks) shall immediately terminate and any right, title, and interest claimed by you to any such matters shall immediately revert to us without further notice or documentation.

(2) You shall immediately cease to operate the Franchised Cafe and shall not thereafter, directly or indirectly, represent to the public or hold yourself out as a present or former franchisee of the System.

(3) You shall immediately and permanently cease to use, in any manner whatsoever, the System, the Marks, the Manual, the Confidential Information and all other distinctive forms, signs, Websites, domain names, e-mail addresses, other Electronic Identifiers, and devices associated with the System.

(4) If we do not exercise our option to purchase the Franchised Cafe building shell pursuant to Section 20, you shall, at your own cost, immediately de-identify (and make non-structural changes to) the Franchised Cafe in accordance with a "De-Identification Schedule" to be prepared by us so as to reasonably distinguish the building shell (and its interior) from other Comer Bakery Cafes. In the event you fail or refuse to comply with the requirements of this Section 19.A.(4), we shall have the right to enter the Franchised Location, without being guilty of trespass or any other tort, for the purpose of making or causing to be made such changes as may be required under this Section 19.A.(4), at your expense, which expense you agree to pay upon demand.

(5) You shall immediately deliver to us the Manual, Confidential Information, all written materials bearing the Marks or identifying the Franchised Cafe, all computer hardware and software that may have been provided or licensed by us, such items as may be listed in the De-Identification Schedule, and all other records, files, instructions, correspondence, brochures, agreements, invoices, and other materials relating to the operation of the Franchised Cafe. You shall retain no copy or record of any of the foregoing, except your copy of this Agreement and copies of any correspondence between the parties.

(6) You shall take such action as may be necessary to cancel any assumed name or equivalent registration that contains the Marks, and you shall furnish us with evidence satisfactory to us of compliance with this obligation within five days after termination or expiration of this Agreement

(7) We shall have the option, exercisable by written notice within 30 days after the termination of this Agreement, to take an assignment of all telephone numbers, facsimile numbers, or other numbers, names and telephone directory listings (collectively "Listings") associated with any Mark or the Franchised Cafe, and you shall notify the telephone company and all telephone directory publishers of the termination or expiration of your right to use any Listing associated with the Cafe, and authorize and instruct their transfer to us or to a third party, at our direction and/or to instruct the telephone company to forward all calls made to your numbers to numbers we specify. You are not entitled to any compensation from us if we exercise this option.

(8) If you have used the Marks, in whole or in part, in connection with the Internet, any Website or any Electronic Identifier, whether or not authorized by us, you shall, at our option, cancel or assign to us, or our designee, all of your rights, title and interest in any Websites, Electronic Identifiers or registrations that contain or previously contained the Marks, or any of them, in whole or in part, and you shall notify Verisign (Network Solutions), register.com, or other applicable domain name registrar and all listing agencies, upon the termination or expiration of this Agreement, of the termination of your right to use any Electronic Identifier associated with the System, the Marks or the Franchised Cafe, and authorize and instruct their cancellation or transfer to us, as directed by us. You are not entitled to any compensation from

us if we exercise these rights or options. For the avoidance of doubt, nothing in this Section 19.A.(8) shall be deemed to permit you to use the Marks, or any of them in whole or in part, in connection with the Internet or any Electronic Identifier, except with our prior written consent as provided in this Agreement.

(9) Within 10 days after such termination or expiration, you shall pay all sums owing to us under this Agreement. In the event of termination for your default, such sums shall include all damages, costs and expenses, including costs under Section 19.A.(4) and reasonable legal fees and reasonable hourly charges of our administrative and other employees, incurred by us as a result of such default. In the event you fail to comply with this Section 19.A.(9), in addition to any rights and remedies available to us, such failure shall give rise to and remain a lien in favor of us (until paid in full) against any and all of the personal property, FFE&S and inventory owned by you at the Franchised Cafe.

B. Evidence of Compliance. You shall furnish to us, within 30 days after the effective date of termination or expiration, evidence (certified to be true, correct and complete, by an officer or Owner/Principal) satisfactory to us of your compliance with Section 19.A.

C. Other Business Operations. You shall not, except with respect to a Comer Bakery Cafe franchised by CBC or our affiliates that is then open and operating pursuant to an effective Franchise Agreement, (1) operate or do business under any name or in any manner that might tend to give the public the impression that you are connected in any way with CBC or our affiliates or have any right to use the System or the Marks; (2) make, use or avail yourself of any of the materials or information furnished or disclosed by CBC or our affiliates under this Agreement or disclose or reveal any such materials or information or any portion thereof to anyone else; or (3) assist anyone not licensed by CBC or our affiliates to construct or equip a foodservice outlet substantially similar to a Comer Bakery Cafe.

D. Survival. The terms of this Section 19 shall survive the termination or expiration of this Agreement. You shall pay to us all damages, costs and expenses, including reasonable attorneys' fees, incurred by us subsequent to the termination or expiration of this Agreement in obtaining injunctive or other relief for the enforcement of any provisions of this Section 19.

20. OPTION TO PURCHASE

A. Scope. Within 30 days before the expiration or termination of this Agreement, we shall have the option (but not the obligation) to purchase from you the Cafe building shell including any or all of the FFE&S, supplies, and inventory related to the Franchised Cafe and excluding any liabilities related to you and/or the Franchised Cafe at the Purchase Price, defined below (collectively, the "Franchised Business").

B. Purchase Price

(1) The "Purchase Price" shall be equal to the fair market value ("FMV") (as if the sale were an "asset sale") of the Cafe building shell and any or all of the FFE&S, supplies, and inventory related to the Franchised Cafe and shall exclude any liabilities related to you and/or the Franchised Cafe. We may, at our option, elect to calculate the Purchase Price based upon the value of the Franchised Business as a "going-concern" as determined by a multiple of EBITDA for such Cafe.

(2) If you and we are unable to agree upon a FMV within a period of 10 days after our exercise of such option, then the parties shall engage an independent third party, knowledgeable and reputable in valuating restaurant business operations, to appraise the FMV of the Franchised Business as if the sale were to be an "asset sale" and assuming (a) the sale of the Franchised Business in an active marketing process and (b) there were no restrictions on the transfer of the equity interests in you.

(3) For this valuation, the parties agree that CBC will pay the lesser of: (a) 50% of the cost of such third party appraiser, or (b) \$5,000; and that you will pay the balance of the cost of such third party appraiser. Once the appraiser provides the FMV of the Franchised Business, the parties will then agree either: (i) to proceed to close the transaction as soon as reasonably practicable, taking into account

the need for reasonable due diligence and obtaining the approval of any necessary third parties; or (ii) to discontinue such discussions.

(4) All amounts due and owing to us under the Franchise Agreement shall be deducted from the Purchase Price, and the Purchase Price shall exclude any items which are required to be returned or delivered to us under Section 19.

C. Closing

(1) The closing of this transaction will take place no later than 30 days after the determination of the Purchase Price or such later date as agreed by the parties, taking into account the need for reasonable due diligence and obtaining the approval of any necessary third parties. All closing documents shall contain all customary representations and warranties. Closing shall take place at our corporate offices or at such other location as the parties may agree.

(2) At closing, you will deliver all instruments required to transfer to us good and merchantable title to the assets purchased, free and clear of all liens and encumbrances and with all sales and other transfer taxes paid by you, and with all licenses or permits of Franchised Cafes that may be assigned or transferred.

(3) At closing, you will also deliver to us an assignment of the lease for the Franchised Location (or, if assignment is prohibited, subleases for the full remaining term and on the same terms and conditions as your lease). If you own the Franchised Location, then you agree to lease the Franchised Location to us pursuant to the terms of our standard lease, for a term of five years with two successive 5-year renewal options at fair market rental during the term.

(4) If the closing of the purchase does not occur as set forth above because you fail to act diligently in connection with the purchase, the Purchase Price will be reduced by 10%. The Purchase Price will be further reduced by 10% per month for each subsequent month that you fail to act diligently to consummate the purchase.

(5) Prior to closing, you and we will comply with any applicable Bulk Sales provisions of the Uniform Commercial Code enacted in the state where your Franchised Business is located.

D. Management of the Franchised Cafe

(1) If we exercise the option to purchase the Franchised Business (pending the closing of such purchase), we have the right to appoint a manager to maintain the operation of the Franchised Cafe or, at our option, require you to close the Franchised Cafe during such time period without removing any assets of the Franchised Cafe.

(2) If we appoint a manager to maintain the operation of the Franchised Cafe pending closing of such purchase, all funds from the operation of the Franchised Cafe during the period of management by our appointed manager will be kept in a separate account, and all expenses of the Franchised Cafe, including compensation, other costs, and travel and living expenses of our appointed manager, will be charged to such account.

(3) As compensation for such management services, we will charge such account 10% of the Gross Sales of the Franchised Cafe during the period when we manage the Franchised Cafe. We will operate the Franchised Cafe during any such period on your behalf, provided that we will have a duty only to utilize our good faith effort and will not be liable to you for any debts or obligations incurred by the Franchised Cafe or to any of your creditors for any merchandise, materials, supplies or services purchased by the Franchised Cafe during this period. You shall maintain in force all insurance policies required by this Agreement until the date of closing.

E. Specific Performance. In the event you fail to comply with this Section 20, in addition to any other rights and remedies available to us, you agree that we shall be entitled to sue for specific performance of your obligations under this Section 20.

21. RELATIONSHIP OF THE PARTIES

A. This Agreement does not create a fiduciary or other special relationship between the parties. No agency, employment, or partnership is created or implied by the terms of this Agreement, and you are not and shall not hold yourself out as agent, legal representative, partner, subsidiary, joint venturer or employee of CBC or our affiliates. You shall have no right or power to, and shall not, bind or obligate CBC or our affiliates in any way or manner, nor represent that you have any right to do so. You shall not issue any press releases without our prior written approval.

B. You are an independent contractor, and you are solely responsible for all aspects of the development and operation of the Franchised Cafe, subject only to the conditions and covenants established by this Agreement. Without limiting the generality of the foregoing, you acknowledge that we have no responsibility to ensure that the Franchised Cafe is developed and operated in compliance with all applicable laws, ordinances and regulations and that we shall have no liability in the event the development or operation of the Franchised Cafe violates any law, ordinance or regulation.

C. The sole relationship between you and us is a commercial, arms' length business relationship, and, except as provided in Section 22, there are no third party beneficiaries to this Agreement. Your business is, and shall be kept, totally separate and apart from any that may be operated by us. In all public records, in relationships with other persons, and on letterhead and business forms, you shall indicate your independent ownership of the Franchised Cafe and that you are solely a franchisee of CBC Restaurant Corp. You shall post a sign in a conspicuous location in the Franchised Cafe that will contain your name and state that the Franchised Cafe is independently owned and operated by you under a franchise agreement with us.

22. INDEMNIFICATION

A. ~~You and your Owners shall, at all times, indemnify, defend (with counsel reasonably acceptable to us), and hold harmless (to the fullest extent permitted by law) us and our affiliates, and our respective successors, assigns, past and present stockholders, directors, officers, employees, agents and representatives (collectively, "Indemnitees") from and against all "losses and expenses" (as defined below) incurred in connection with any action, suit, proceeding, claim, demand, investigation, inquiry (formal or informal), judgment or appeal thereof by or against Indemnitees or any settlement thereof (whether or not a formal proceeding or action had been instituted), arising out of or resulting from or connected with your activities under this Agreement, excluding the gross negligence or willful misconduct of any of the indemnitees. You promptly shall give us written notice of any such action, suit, proceeding, claim, demand, inquiry or investigation filed or instituted against you and, upon request, shall furnish us with copies of any documents from such matters as we may request.~~

B. ~~At your expense and risk, we may elect to assume (but under no circumstances will we be obligated to undertake) the defense and/or settlement of any action, suit, proceeding, claim, demand, investigation, inquiry, judgment or appeal thereof subject to this Section 22. Such an undertaking shall, in no manner or form, diminish your obligation to indemnify and hold harmless us and Indemnitees. We shall not be obligated to seek recoveries from third parties or otherwise mitigate losses.~~

C. ~~As used in this Section, the phrase "losses and expenses" shall include, but not be limited to: all losses; compensatory, exemplary and punitive damages; fines; charges; costs; expenses; lost profits; reasonable attorney's fees; expert witness fees; court costs; settlement amounts; judgments; compensation for damages to our reputation and goodwill; costs of or resulting from delays; financing; costs of advertising material and media time/space and the costs of changing, substituting or replacing the same; and any and all~~

~~expenses of recall, refunds, compensation, public notices and other such amounts incurred in connection with the matters described.~~

A. You and your Principals will defend, indemnify and hold harmless, CBC and our parent, affiliates, subsidiaries and their successors and assigns, and each of their respective direct and indirect owners, directors, officers, managers, employees, agents, attorneys, and representatives (collectively, "Indemnified Parties") from and against all Losses (as defined below) which any of the Indemnified Parties may suffer, sustain or incur as a result of a claim asserted or inquiry made formally or informally, or a legal action, investigation, or other proceeding brought by a third party and directly or indirectly arising out of your development and operation of the Franchised Cafe, your conduct of business under this Agreement or your breach of this Agreement. We will promptly notify you of any claim that may give rise to a claim of indemnity hereunder, provided, however, that the failure to provide such notice will not release you from your indemnification obligations under this Section except to the extent you are actually and materially prejudiced by such failure. You will have the right, upon written notice delivered to the Indemnified Party within 15 days thereafter assuming full responsibility for Losses resulting from such claim, to assume and control the defense of such claim, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of the fees and disbursements of such counsel. If (1) the Indemnified Party will have been advised by counsel that there are one or more legal or equitable defenses available to it that are different from or in addition to those available to you and, in the reasonable opinion of the Indemnified Party, your counsel could not adequately represent the interests of the Indemnified Party because such interests could be in conflict with your interests, or (2) you do not assume responsibility for such Losses in a timely manner or you fail to defend a claim with counsel reasonably satisfactory to the Indemnified Party as contemplated above, then the Indemnified Party will have the right to employ counsel of its own choosing, and you will pay the fees and disbursements of such Indemnified Party's counsel as incurred. In connection with any claim, the Indemnified Party or you, whichever is not assuming the defense of such claim, will have the right to participate in such claim and to retain its own counsel at such party's own expense. You or the Indemnified Party (as the case may be) will keep you or the Indemnified Party (as the case may be) reasonably apprised of, and will respond to any reasonable requests concerning, the status of the defense of any claim and will cooperate in good faith with each other with respect to the defense of any such claim. You will not, without the prior written consent of the Indemnified Party, (a) settle or compromise any claim or consent to the entry of any judgment with respect to any claim which does not include a written release from liability of such claim for the Indemnified Party and its affiliates, direct and indirect owners, directors, managers, employees, agents and representatives, or (b) settle or compromise any claim in any manner that may adversely affect the Indemnified Party other than as a result of money damages or other monetary payments which will be paid by you. No claim which is being defended in good faith by you in accordance with the terms of this Section will be settled by the Indemnified Party without your prior written consent. Notwithstanding anything to the contrary herein, if a claim involves the Marks, you agree that we will have the exclusive right to assume the defense of such claim, at your expense with counsel selected by us, but reasonably satisfactory to you.

B. You have no obligation to indemnify or hold harmless an Indemnified Party for any Losses to the extent they are determined in a final, unappealable ruling issued by a court or arbitrator with competent jurisdiction to have been caused solely and directly by the Indemnified Party's gross negligence, willful misconduct, or willful wrongful omissions.

C. For purposes of this Section, "Losses" include all obligations, liabilities, damages (actual, consequential, or otherwise), and defense costs that any Indemnified Party incurs. Defense costs include, without limitation, accountants', arbitrators', attorneys', and expert witness fees, costs of investigation and proof of facts, court costs, travel and living expenses, and other expenses of litigation, arbitrating, and alternative dispute resolution.

D. Your obligations in this Section will continue in full force and effect subsequent to and notwithstanding this Agreement's expiration or termination. An Indemnified Party need not seek recovery from any insurer or other third party, or otherwise mitigate its Losses, in order to maintain and recover fully a

claim against you under this Section. You agree that a failure to pursue a recovery or mitigate a Loss will not reduce or alter the amounts that an Indemnified Party may recover from you under this Section.

23. CONSENTS, APPROVALS AND WAIVERS

A. Whenever this Agreement requires our prior approval or consent, you shall make a timely written request to us therefor, and any approval or consent received, in order to be effective and binding upon us, must be obtained in writing and be signed by one of our authorized officers.

B. We make no warranties or guarantees upon which you may rely by providing any waiver, approval, consent or suggestion to you in connection with this Agreement and assume no liability or obligation to you therefor, or by reason of any neglect, delay, or denial of any request therefor. We shall not, by virtue of any approvals, advice or services provided to you, assume responsibility or liability to you or to any third parties to which we would not otherwise be subject.

C. No failure by us to exercise any power reserved to us by this Agreement or to insist upon strict compliance by you with respect to any obligation or condition under this Agreement, and no custom or practice of the parties at variance with any term of this Agreement, shall constitute a waiver of our right to demand exact compliance with any term of this Agreement. Our waiver of any particular default by you shall not affect or impair our rights with respect to any subsequent default of the same, similar or different nature, nor shall any delay, forbearance or omission by us in exercising any power or right arising out of any breach or default by you of any term, provision or covenant of this Agreement affect or impair our right to exercise the same, nor shall such constitute a waiver by us of any right under this Agreement, or the right to declare any subsequent breach or default and to terminate this Agreement prior to the expiration of its term. Our subsequent acceptance of any payments due to us under this Agreement shall not be deemed to be a waiver by us of any preceding breach by you of any term, covenant or condition of this Agreement.

24. NOTICES

No notice, demand, request or other communication to the parties shall be binding upon the parties, unless the notice is in writing, refers specifically to this Agreement and: (A) if to you, is addressed to you at the notice address set forth in Appendix A; and (B) if to us, is addressed to **CBC Restaurant Corp.** at: 12700 Park Central Drive, Suite 1300, Dallas, Texas 75251 (Attn: General Counsel) (Facsimile: (972) 534-1708). Any party may designate a new address for notices by giving written notice of the new address pursuant to this Section. Notices shall be effective upon receipt (or first rejection) and may be: (1) delivered personally; (2) transmitted by facsimile or electronic mail to the number(s) set forth above (or in Appendix A) with electronic confirmation of receipt; (3) mailed in the United States mail, postage prepaid, certified mail, return receipt requested; or (4) mailed via overnight courier.

25. FORCE MAJEURE

If the performance of any obligation by any party under this Agreement is prevented, hindered or delayed by reason of Force Majeure that cannot be overcome by reasonable commercial measures, the parties shall be relieved of their respective obligations (to the extent that the parties, having exercised best efforts, are prevented, hindered or delayed in such performance) during the period of such Force Majeure. The party whose performance is affected by an event of Force Majeure shall give prompt written notice of such Force Majeure event to the other party by setting forth the nature thereof and an estimate as to its duration. As used in this Agreement, the term "Force Majeure" means any act of God, strike, lock-out or other industrial disturbance, war (declared or undeclared), riot, epidemic, fire or other catastrophe, act of any government or other third party and any other cause not within the control of the party affected thereby. Your inability to obtain financing (regardless of the reason) shall not constitute Force Majeure.

26. ENTIRE AGREEMENT

We and you acknowledge that each element of this Agreement is essential and material and that, except as otherwise provided in this Agreement, the parties shall deal with each other in good faith. This Agreement, the Manual, the documents referred to in this Agreement and the attachments to this Agreement, constitute the entire, full and complete agreement between the parties concerning the matters covered in this Agreement, and supersede any and all prior or contemporaneous negotiations, discussions, understandings or agreements. There are no other representations, inducements, promises, agreements, arrangements, or undertakings, oral or written, between the parties relating to the matters covered by this Agreement other than those set forth in this Agreement, our Franchise Disclosure Document, the Manual, the documents referred to in this Agreement and the attachments to this Agreement. Nothing in this Agreement requires you to waive reliance on the representations made in our Franchise Disclosure Document. No obligations or duties that contradict or are inconsistent with the express terms of this Agreement may be implied into this Agreement. Except as expressly set forth in this Agreement, no amendment, change or variance from this Agreement shall be binding on either party, unless mutually agreed to by the parties and signed in writing.

27. DISPUTE RESOLUTION

A. **Non-Binding Mediation.** The parties agree that either party may submit any claim, controversy, or dispute arising out of this Agreement to non-binding mediation, provided the parties shall not be required to pursue mediation of any claim, controversy, or dispute as a prerequisite to filing a lawsuit or commencing other legal proceedings, and the pendency of a mediation shall not cause any legal proceedings to be stayed pending the outcome of the mediation. Any such non-binding mediation shall be conducted through either an individual mediator or a mediation services organization, provided the mediator shall be experienced in the mediation of food service business disputes and agreed upon by the parties.

B. **Choice of Law.** This Agreement and any claim or controversy arising out of, or relating to, rights and obligations of the parties under this Agreement and any other claim or controversy between the parties shall be governed by and construed in accordance with the laws of the State of Texas without regard to conflicts of laws principles. Nothing in this Section is intended, or shall be deemed, to make any Texas law regulating the offer or sale of franchises or the franchise relationship applicable to this Agreement if such law would not otherwise be applicable.

C. **Choice of Forum.** The parties agree that, to the extent any disputes cannot be resolved directly between them, ~~you~~they shall file any suit against ~~each other~~ only in the federal or state court having jurisdiction where ~~our~~CBC's principal offices are located at the time suit is filed. ~~We may file suit in the federal or state court located in the jurisdiction where our principal offices are located at the time suit is filed, where you reside or do business, where the Protected Area or the Franchised Area is or was located or where the claim arose.~~ You consent to the personal jurisdiction of those courts over you and to venue in those courts.

D. **Limitations of Actions.** Except for payments owed by one party to the other, and unless prohibited by applicable law, any legal action or proceeding (including the offer and sale of a franchise to you) brought or instituted with respect to any dispute arising from or related to this Agreement or with respect to any breach of the terms of this Agreement must be brought or instituted within a period of two years after the initial occurrence of any act or omission that is the basis of the legal action or proceeding, whenever discovered.

E. **Place of Execution of Agreement.** The parties acknowledge that, (1) this Agreement was executed in Dallas County, Texas; and (2) performance of certain obligations by you and your ~~Owners~~Principals under this Agreement, including payment of monetary sums due under this Agreement, shall be deemed to occur at our principal offices in Dallas, Texas.

F. **Reimbursement of Costs and Expenses.** If either party brings an action to enforce this Agreement in a judicial proceeding, the party prevailing in that proceeding shall be entitled to reimbursement of costs and expenses, including, but not limited to, reasonable accountants', attorneys', attorneys' assistants' and expert witness fees, the cost of investigation and proof of facts, court costs, other litigation

expenses, and travel and living expenses, whether incurred prior to, during, in preparation for, or in contemplation of the filing of, the proceeding. If we utilize legal counsel (including in-house counsel employed by us) in connection with any failure by you to comply with this Agreement, you shall reimburse us for any of the above-listed costs and expenses incurred by us. In any judicial proceeding, the amount of these costs and expenses will be determined by the court and not by a jury.

G. Rights of Parties are Cumulative. The parties' rights under this Agreement are cumulative, and the exercise or enforcement of any right or remedy under this Agreement will not preclude the exercise or enforcement by a party of any other right or remedy under this Agreement that it is entitled by law or this Agreement to exercise or enforce.

H. WAIVER OF PUNITIVE DAMAGES and Jury Trial. ~~To the fullest extent permitted by law, the parties waive any right to, or claim for, any consequential, punitive or exemplary damages against the other party. The parties also agree that, in the event of a dispute between them, the party making a claim will be limited to recovery of actual damages, if any. In addition, the parties irrevocably waive, CLASS ACTION LAWSUITS AND JURY TRIAL. TO THE FULLEST EXTENT PERMITTED BY LAW, THE PARTIES WAIVE ANY RIGHT TO, OR CLAIM FOR, ANY CONSEQUENTIAL, PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER PARTY. THE PARTIES ALSO AGREE THAT, IN THE EVENT OF A DISPUTE BETWEEN THEM, THE PARTY MAKING A CLAIM WILL BE LIMITED TO RECOVERY OF ACTUAL DAMAGES, IF ANY. IN ADDITION, THE PARTIES IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO BRING, OR BE A CLASS MEMBER IN, ANY CLASS ACTION SUITS AND THE RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING, AND/OR COUNTERCLAIM BROUGHT BY EITHER PARTY.~~

28. SEVERABILITY AND CONSTRUCTION

A. Severability. Each article, paragraph, subparagraph, term and condition of this Agreement, and any portions thereof, will be considered severable. If, for any reason, any portion of this Agreement is determined to be invalid, contrary to, or in conflict with, any applicable present or future law, rule or regulation in a final, unappealable ruling issued by any court, agency or tribunal with valid jurisdiction in a proceeding to which you and we are a party, that ruling will not impair the operation of, or have any other effect upon, any other portions of this Agreement, all of which will remain binding on the parties and continue to be given full force and effect.

B. Modification to Scope of Covenants by Law. You expressly agree to be bound by any promise or covenant imposing the maximum duty permitted by law that is subsumed within the terms of any provision of this Agreement, 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 that a court may hold to be unreasonable and unenforceable in a final decision to which we are a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court order.

C. Our Discretion. Whenever we have expressly reserved in this Agreement a right and/or discretion to take or withhold an action, or to grant or decline to grant you a right to take or withhold an action, except as otherwise expressly and specifically provided in this Agreement, we may make such decision or exercise our right and/or discretion on the basis of our judgment of what is in our best interests. This also applies if we are deemed to have a right and/or discretion. Our judgment of what is in the best interests of the System, at the time our decision is made or our right or discretion is exercised, can be made without regard to whether: (1) other reasonable alternative decisions or actions, or even arguably preferable alternative decisions or actions, could have been made by us; (2) our decision or the action taken promotes our financial or other individual interest; (3) our decision or the action taken applies differently to you and one or more other franchisees or our company-owned or affiliate-owned operations; or (4) our decision or the action taken is adverse to your interests. We will have no liability to you for any such decision or action. We and you intend that the exercise of CBC's right or discretion will not be subject to limitation or review. If applicable law implies a covenant of good faith and fair dealing in this Agreement, we and you agree that such covenant will not imply any rights or obligations that are inconsistent with a fair construction of the

terms of this Agreement and that this Agreement grants us the right to make decisions, take actions and/or refrain from taking actions not inconsistent with your rights and obligations under this Agreement.

D. Interpretation. No provision of this Agreement shall be interpreted in favor of, or against, any party because of the party that drafted this Agreement.

29. MISCELLANEOUS

A. Gender and Number. All references to gender and number shall be construed to include such other gender and number as the context may require.

B. Captions. 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 of this Agreement.

C. Counterparts. This Agreement may be executed in counterparts, and each copy so executed and delivered shall be deemed an original.

D. References. Each reference in this Agreement to a corporation or partnership also shall be deemed to refer to a limited liability company and any other entity or organization similar thereto if applicable. Each reference to the organizational documents, owners, directors, and officers of a corporation in this Agreement shall be deemed to refer to the functional equivalents of such organizational documents, owners, directors, and officers, as applicable, in the case of a limited liability company or any other entity or organization similar thereto if applicable.

E. Time. Time is of the essence of this Agreement for each provision in which time is a factor. Whenever this Agreement refers to a period of days or months, the first day or month to be counted shall be the day or month of the designated action, event or notice. Days shall be measured by calendar days, except that if the last day of a period is a Saturday, Sunday or national holiday, the period automatically shall be extended to the next day that is not a Saturday, Sunday or national holiday.

F. Injunctive Relief. You recognize that your failure to comply with the terms of this Agreement, including, but not limited to, the failure to comply fully with all post-termination obligations, is likely to cause irreparable harm to us, our affiliates and the System. Therefore, you agree that, in the event of a breach or threatened breach of any of the terms of this Agreement by you, we shall be entitled to injunctive relief (both preliminary and permanent) restraining that breach and/or to specific performance without showing or proving actual damages and without posting any bond or security. Any equitable remedies sought by us shall be in addition to, and not in lieu of, all remedies and rights that we otherwise may have arising under applicable law or by virtue of any breach of this Agreement.

G. Terrorist Acts. You acknowledge that under applicable U.S. law, including, without limitation, Executive Order 13224, signed on September 23, 2001 ("Order"), we are prohibited from engaging in any transaction with any person engaged in, or with a person aiding any person engaged in, acts of terrorism, as defined in the Order. Accordingly, you represent and warrant to us that, as of the date of this Agreement, neither you nor any person holding any ownership interest in you, controlled by you, or under common control with you is designated under the Order as a person with whom we may not transact business, and that you: (1) do not, and hereafter shall not, engage in any terrorist activity; (2) are not affiliated with and do not support any individual or entity engaged in, contemplating, or supporting terrorist activity; and (3) are not acquiring the rights granted under this Agreement with the intent to generate funds to channel to any individual or entity engaged in, contemplating, or supporting terrorist activity, or to otherwise support or further any terrorist activity.

30. REPRESENTATIONS

You represent, acknowledge and warrant to us (and you agree that these representations, acknowledgments and warranties shall survive termination of this Agreement) that:

CBC Franchise Agreement

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03/11/05/12

A. **Legal and Business Rights and Risks.** This Agreement involves significant legal and business rights and risks. We do not guarantee your success. You have read this Agreement in its entirety, conducted an independent investigation of the business contemplated by this Agreement, have been thoroughly advised with regard to the terms and conditions of this Agreement by legal counsel or other advisors of your choosing, recognize that the nature of the business conducted by Corner Bakery Cafes may change over time, have had ample opportunity to investigate all representations made by or on our behalf, and have had ample opportunity to consult with our current and former franchisees. The prospect for success of the business undertaken by you is speculative and depends to a material extent upon your personal commitment, capability and direct involvement in the day-to-day management of the business.

B. **No Representation of Your Success.** We make no express or implied warranties or representations that you will achieve any degree of success in the development or operation of the Franchised Cafe. Your success in the development and operation of the Franchised Cafe depends ultimately on your efforts and abilities and on other factors, including, but not limited to, market and other economic conditions, your financial condition and competition.

C. **Our Agreements with Third Parties.** We have entered, and will continue to enter, into agreements with other franchisees for Corner Bakery Cafes. The manner in which we enforce our rights and the franchisees' obligations under any of those other agreements shall not affect our ability to enforce our rights or your obligations under this Agreement.

D. **Refundability of Initial Franchise Fee.** The Initial Franchise Fee is not refundable for any reason.

E. **System Modifications.** We may change or modify the System, from time to time, including the Manual, and you will be required to make such expenditures as such changes or modifications in the System may require.

F. **Franchise Application.** All information that you provided to us in connection with your franchise application and our grant of this Franchise is truthful, complete and accurate.

G. **Signatories to this Agreement.** The persons signing this Agreement on your behalf have full authority to enter into this Agreement and the other agreements contemplated by the parties. Your execution of this Agreement or such other agreements does not and will not conflict or interfere with, directly or indirectly, intentionally or otherwise, with the terms of any other agreement with any other third party to which you or any Owner ~~Principal~~ is a party.

H. **No Representations Other Than Franchise Disclosure Document.** You have not received from CBC or our affiliates, or anyone acting on our behalf, any representations other than those contained in our Franchise Disclosure Document as inducements to enter this Agreement.

I. **No Actual or Apparent Authority.** Even though this Agreement contains provisions requiring you to operate the Franchised Cafe in compliance with the System: (1) we and our affiliates do not have actual or apparent authority to control the day-to-day conduct and operation of your business or employment decisions; and (2) you and we do not intend for CBC or our affiliates to incur any liability in connection with or arising from any aspect of the System or your use of the System, whether or not in accordance with the requirements of the Manual, except with respect to any liability arising from our gross negligence or willful misconduct.

J. **Limited Exclusivity.** You understand that there are certain limitations to your exclusive rights in the Protected Area during the term of this Agreement and that, following termination or expiration of the term of this Agreement, we may develop and operate, and license others to develop and operate, restaurants identified in whole or in part by the name and mark "Corner Bakery Cafe" at any location in the Protected Area.

~~K. Waiver of Right to Jury Trial. In the event of a dispute between us and you, the parties have waived their right to a jury trial.~~

~~L.K. Limited Liability for Our Related Parties. Except when another entity guarantees our obligations under this Agreement as provided for in the guaranty in our Franchise Disclosure Document (the "Guaranteeing Entity"), you agree that no past, present or future director, officer, employee, incorporator, member, partner, stockholder, subsidiary, affiliate, controlling party, entity under common control, ownership or management, vendor, service provider, agent, attorney or representative of ours (other than the Guaranteeing Entity but only to the extent of the terms of the guaranty) will have any liability for (i) any of our obligations or liabilities relating to or arising from this Agreement, (ii) any claim against us based on, in respect of, or by reason of, the relationship between you and us, or (iii) any claim against us based on any alleged unlawful act or omission.~~

IN WITNESS WHEREOF, the parties have duly executed, sealed and delivered this Agreement as of the day and year first above written.

ATTEST:

CBC RESTAURANT CORP.

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

ATTEST:

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

PERSONAL GUARANTY AND ASSUMPTION OF FRANCHISEE'S OBLIGATIONS

In consideration of, and as an inducement to, the execution of the Corner Bakery Cafe Franchise Agreement dated as of _____ ("Agreement") by CBC Restaurant Corp. ("CBC"), entered into with _____ ("Franchisee"), the undersigned ("Guarantors"), each of whom is an officer, director or limited liability company manager of Franchisee, member of Franchisee's Continuity Group or a direct owner of a legal or beneficial interest in Franchisee of 10% or more ("~~Owner~~Principal"), hereby personally and unconditionally: (1) guarantee to CBC and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement, that Franchisee shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; (2) agree personally to be bound by the provisions of Sections 17 and 22 of the Agreement; and (3) agree personally to be liable for the breach of Section 17 of the Agreement.

Each Guarantor hereby waives: (a) all rights to payments and claims for reimbursement or subrogation that any Guarantor may have against Franchisee arising as a result of the execution of and performance under this Guaranty, for the express purpose that none of the undersigned Guarantors shall be deemed a "creditor" of Franchisee under any applicable bankruptcy law with respect to Franchisee's obligations to CBC; (b) all rights to require CBC to proceed against Franchisee for any payment required under the Agreement, proceed against or exhaust any security from Franchisee, take any action to assist any of the undersigned in seeking reimbursement or subrogation in connection with this Guaranty or pursue, enforce or exhaust any remedy, including any legal or equitable relief, against Franchisee; (c) any benefit of, any right to participate in, any security now or hereafter held by CBC; and (d) acceptance and notice of acceptance by CBC of the foregoing his, her or its undertakings; (b) notice under this Guaranty, all presentments, demands and notices of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; (e) protest and notice, notices of dishonor, notices of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed; (d) any right to require that an action be brought against Franchisee or, and any other person as a condition of liability; (e) all rights to payments and claims for reimbursement or subrogation that any Guarantor may have against Franchisee arising as a result of the execution of and performance under this Guaranty by each Guarantor; (f) any law or statute that requires CBC to make demand upon, assert claims against or collect from Franchisee or any others, foreclose any security interest, soil collateral, exhaust any remedies or take any other action against Franchisee or any others prior to making any demand upon, collecting from or taking any action against any Guarantor with respect to this Guaranty; (g) any and all other notices and legal or equitable defenses to which he, she or it may be entitled; and (h) g any and all right to have any legal action under this Guaranty decided by a jury. CBC shall have no present or future duty or obligation to any Guarantor under this Guaranty, and each Guarantor waives any right to claim or assert any such duty or obligation, to discover or disclose to any Guarantor any information, financial or otherwise, concerning Franchisee, any other guarantor, or any collateral securing any obligations of Franchisee to CBC.

Each Guarantor consents and agrees that, (i) his direct and immediate liability under this Guaranty shall be joint and several; (ii) he shall render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so; (iii) such liability shall not be contingent or conditioned upon pursuit by CBC of any remedies against Franchisee or any other person; (iv) such liability shall not be diminished, relieved or otherwise affected by any amendment of the Agreement, any extension of time, credit or other indulgence which CBC may from time to time grant to Franchisee or to any other person including, without limitation, the acceptance of any partial payment or performance or the compromise or release of any claims, none of which shall in any way modify or amend this Guaranty, which shall be continuing and irrevocable during the term of the Agreement and for so long thereafter as there are monies or obligations owing from Franchisee to CBC or its affiliates under the Agreement; and (v) monies received from any source by CBC for application toward payment of the obligations under the Agreement and under this Guaranty may be applied in any manner or order deemed appropriate by CBC. In addition, if any Guarantor ceases to be a member of the Continuity Group, an OwnerPrincipal, an officer or a director of Franchisee or to own any interest in Franchisee

prior to termination or expiration of the Agreement, that person agrees that his obligations under this Guaranty shall continue to remain in force and effect unless CBC in its sole discretion, in writing, releases that person from this Guaranty. Notwithstanding the provisions of the previous sentence, unless prohibited by applicable law, the obligations contained in Section 17.C. shall remain in force and effect for a period of two years after any such release by CBC. A release by CBC of any Guarantor shall not affect the obligations of any other Guarantor.

If CBC brings an action to enforce this Guaranty, and CBC prevails in that action, CBC shall be entitled to reimbursement of its costs and expenses, including, but not limited to, reasonable accountants', attorneys', attorneys' assistants' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses, whether incurred prior to, in preparation for, in contemplation of or subsequent to the filing of any such proceeding. In any judicial proceeding, these costs and expenses shall be determined by the court and not by a jury.

If CBC utilizes legal counsel (including in-house counsel employed by CBC or its affiliates) in connection with any failure by any Guarantor to comply with this Guaranty, the Guarantors shall reimburse CBC for any of the above-listed costs and expenses incurred by it.

If any of the following events occur, a default ("Default") under this Guaranty shall exist: (a) failure of timely payment or performance of the obligations under this Guaranty; (b) breach of any agreement or representation contained or referred to in this Guaranty; (c) appointment of a guardian for, dissolution of, termination of existence of, loss of good standing status by, appointment of a receiver for, assignment for the benefit of creditors of, or the commencement of any insolvency or bankruptcy proceeding by or against, any of the undersigned; and/or (d) the entry of any monetary judgment or the assessment against the filing of any tax lien against or the issuance of any writ of garnishment or attachment against any property of or debts due any Guarantor. If a Default occurs, the obligations of the Guarantors shall be due immediately and payable without notice.

This Guaranty shall inure to the benefit of and be binding upon the parties and their respective heirs, legal representatives, successors and assigns. CBC's interests in and rights under this Guaranty are freely assignable, in whole or in part, by CBC. Any assignment shall not release any Guarantor from this Guaranty.

Section 27 of the Agreement is incorporated by reference into this Guaranty, and all capitalized terms that are not defined in this Guaranty shall have the meaning given them in the Agreement.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, each Guarantor has hereunto affixed his signature, under seal.

GUARANTORS:

Date: _____	_____ (Seal)
	Print Name: _____
	Address: _____
Date: _____	_____ (Seal)
	Print Name: _____
	Address: _____
Date: _____	_____ (Seal)
	Print Name: _____
	Address: _____
Date: _____	_____ (Seal)
	Print Name: _____
	Address: _____

APPENDIX A

FRANCHISE INFORMATION

1. **Franchised Location (Recitals):** _____

2. **Protected Area (Section 1.B.):** _____

The Protected Area may also be depicted on a map and, if so, that map will be attached to this Appendix A. Your rights in the Protected Area are subject to the limitations described in Section 1 of the Franchise Agreement. Any boundaries contained in the description of the Protected Area will be considered fixed as of the Effective Date and shall not change notwithstanding a change in those boundaries. Unless otherwise specified, all street boundaries shall be deemed to include both sides of the street.

3. **Initial Franchise Fee (Section 4.A.):** \$25,000 _____

4. **Interests in Other Restaurants (Section 17.C.(31)):** _____

5. **Your Notice Address, Facsimile Number and E-mail Address (Section 24):** _____

PROTECTED AREA MAP

APPENDIX B

PRE-AUTHORIZED BANK TRANSFER
(DIRECT DEBITS)

Name of Person or Legal Entity: _____

ID Number: _____

Account Name: _____

Address: _____

The undersigned depositor ("Depositor") hereby authorizes CBC Restaurant Corp. ("CBC") to initiate debit entries and/or credit correction entries to Depositor's checking and/or savings account(s) indicated below and the depository designated below ("Depository") and to debit such account pursuant to CBC's instructions for any and all amounts due to CBC. The Depositor understands that all amounts debited from the account below will be credited to CBC's account. IN LIEU OF COMPLETING THE INFORMATION REQUIRED ON THE FOLLOWING FOUR LINES, FRANCHISEE MAY ATTACH A CANCELLED OR VOIDED CHECK HERETO.

Depository	Branch	
City	State	Zip Code
Telephone Number of Bank	Contact Person at Bank	
Bank Transit/ABA Number	Account Number	

[Remainder of page intentionally left blank]

This authority is to remain in full force and effect until Depository has received joint written notification from CBC and Depositor of Depositor's termination of such authority in such time and in such manner as to afford Depository a reasonable opportunity to act on it. Notwithstanding the foregoing, Depository shall provide CBC and Depositor with 30 days' prior written notice of the termination of this authority. If an erroneous debit entry is initiated to Depositor's account, Depositor shall have the right to have the amount of such entry credited to such account by Depository, if within 15 calendar days following the date on which Depository sent to Depositor a statement of account or a written notice pertaining to such entry or 45 days after posting, whichever occurs first, Depositor shall have sent to Depository a written notice identifying such entry, stating that such entry was in error and requesting Depository to credit the amount thereof to such account. These rights are in addition to any rights Depositor may have under federal and state banking laws.

Depositor

By: _____

Title: _____

Date: _____

Depository

By: _____

Title: _____

Date: _____

APPENDIX C

FRANCHISEE'S WEEKLY ADVERTISING OBLIGATION

Your **WAO** under Section 6 of the Franchise Agreement shall be allocated as set forth below, unless and until modified by us as provided in Section 6:

1.	Brand Development Fee (Section 6.C.)	<u>.5% of Gross Sales</u>
2.	National Marketing Fund (Section 6.D.)	<u>0 % of Gross Sales</u>
3.	Regional Advertising Fund (Section 6.E.)	<u>0 % of Gross Sales</u>
4.	Field Marketing (Section 6.G.)	<u>1.5 % of Gross Sales</u>
TOTAL WAO:		<u>2.0% of Gross Sales</u>

APPENDIX D

OWNERSHIP INTERESTS

CORPORATION

If you are a corporation, the number of authorized shares in you that have been issued is _____, and the name, address, number of shares owned (legally or beneficially) and office held by each shareholder is as follows:

Name	Address	No. of Shares	Office Held

LIMITED LIABILITY COMPANY

If you are a limited liability company, the name, address and percentage interest of each member is as follows:

Name	Address	Percentage Interest

BUSINESS ENTITY

If you are a business entity other than a corporation or a limited liability company, the name, address and percentage interest of each owner is as follows:

Name	Address	Percentage Interest

CONTINUITY GROUP, OPERATING PARTNER AND MULTI-UNIT MANAGER

The Continuity Group is comprised of the following persons: _____

Your Operating Partner and Multi-Unit Manager (if applicable) are: _____

FRANCHISEE:

By: _____

Print Name: _____

Title: _____

Date: _____

**APPENDIX E
FORM OF ADDENDUM TO LEASE**

THIS ADDENDUM is executed as of this ____ day of _____, _____, by and between _____ ("Franchisee") and _____ ("Landlord"), as an addendum to the lease, as modified, amended, supplemented, renewed and/or extended from time to time as contemplated herein, ("Lease") for the premises located at _____, State of _____ ("Premises") dated as of _____, _____.

Franchisee has entered into a Development Agreement and/or a Franchise Agreement ("Franchise Agreement") with CBC Restaurant Corp. ("Franchisor") for the development and operation of a Corner Bakery Cafe at the Premises, and as a requirement thereof, the lease for the Premises must contain the provisions contained in this Addendum.

Landlord and Franchisee agree that the terms contained herein shall supersede any terms to the contrary set forth in the Lease.

NOW THEREFORE, in consideration of mutual covenants set forth herein, the execution and delivery of the Lease, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Franchisee hereby agree as follows:

1. Landlord shall deliver to Franchisor a copy of any notice of default or termination of the Lease at the same time such notice is delivered to Franchisee.
2. Franchisee hereby assigns to Franchisor, with Landlord's irrevocable and unconditional consent, all of Franchisee's rights, title and interests to and under the Lease upon any termination or non-renewal of the Franchise Agreement, but no such assignment shall be effective unless: (a) the Franchise Agreement is terminated or expires without renewal; (b) Franchisor has exercised its Option to Purchase under the Franchise Agreement; and (c) Franchisor notifies the Franchisee and Landlord in writing that Franchisor assumes Franchisee's obligations under the Lease.
3. Franchisor shall have the right, but not the obligation, upon giving written notice of its election to Franchisee and Landlord, to cure any breach of the Lease and, if so stated in the notice, to also succeed to Franchisee's rights, title and interests thereunder.
4. The Lease may not be modified, amended, supplemented, renewed, extended or assigned by Franchisee without Franchisor's prior written consent.
5. Franchisee and Landlord acknowledge and agree that Franchisor shall have no liability or obligation whatsoever under the Lease unless and until Franchisor assumes the Lease in writing pursuant to Section 2 or Section 3, above.
6. If Franchisor assumes the Lease, as provided above, Franchisor may, without Landlord's prior consent, further assign the Lease to a franchisee of Franchisor to operate the Corner Bakery Cafe at the Premises provided that the following criteria are met: (a) Franchisor has an established franchising program for Comer Bakery Cafes; and (b) the proposed franchisee has met all of Franchisor's applicable program criteria and requirements and has executed Franchisor's standard franchise agreement. Landlord agrees to execute such further documentation to confirm its consent to the assignment permitted under this Addendum as Franchisor may reasonably request. Upon such assignment to a franchisee of Franchisor, Franchisor shall be released from any further liability under the terms and conditions of the Lease.
7. Landlord and Franchisee hereby acknowledge that Franchisee has agreed under the Franchise Agreement that Franchisor and its employees or agents shall have the right to enter the Premises for certain purposes. Landlord hereby agrees not to interfere with or prevent such entry by

Franchisor, its employees or agents. Landlord and Franchisee hereby further acknowledge that in the event the Franchise Agreement expires (without renewal) or is terminated, Franchisee is obligated to take certain steps under the Franchise Agreement to de-identify the Premises as a Comer Bakery Cafe. Landlord agrees to permit Franchisor, its employees or agent, to enter the Premises and remove signs (both interior and exterior), décor and materials displaying any marks, designs or logos owned by Franchisor, provided Franchisor shall bear the expense of repairing any damage to the Premises as a result thereof.

8. Landlord and Franchisee agree that if Landlord is an affiliate or an ~~Owner~~ Principal of Franchisee, as defined in the Franchise Agreement, and Landlord proposes to sell the Premises, prior to the sale of the Premises, the Lease upon the request of Franchisor shall be amended to reflect a rental rate and other terms that are the reasonable and customary rental rates and terms prevailing in the community where the Corner Bakery Cafe is located.
9. Landlord agrees that during and after the term of the Lease, it will not disclose or use Franchisor's Confidential Information (as defined below) for any purpose other than for the purpose of fulfilling Landlord's obligations under the Lease. "Confidential Information" as used herein shall mean all non-public information and tangible things, whether written, oral, electronic or in other form, provided or disclosed by or on behalf of Franchisee to Landlord, or otherwise obtained by Landlord, regarding the design and operations of the business located at the Premises, including, without limitation, all information identifying or describing the floor plan, equipment, furniture, fixtures, wall coverings, flooring materials, shelving, decorations, trade secrets, trade dress, "look and feel," layout, design, menus, recipes, formulas, manner of operation, suppliers, vendors, and all other products, goods, and services used, useful or provided by or for Franchisee on the Premises. Landlord acknowledges that all Confidential Information belongs exclusively to Franchisor. Landlord agrees that should it breach or threaten to breach this provision of this Addendum, Franchisor will suffer irreparable damages and Franchisor's remedy at law will be inadequate. Therefore, if Landlord threatens or actually breaches this provision, Franchisor shall be entitled to all remedies available to Franchisor at law or in equity, including, without limitation, injunctive relief.
10. Landlord agrees that: (a) Franchisor has solely granted to Franchisee the right to use Franchisor's proprietary trade name, trademarks, service marks logos, insignias, slogans, emblems, symbols, designs and indicia of origin (collectively the "Marks") at the Premises under the terms of the Franchise Agreement; and (b) Franchisor has not granted any rights or privileges to Landlord to use the Marks at the Premises or anywhere else; and (c) Landlord's unauthorized use of the Marks during or after the term of the Lease shall cause irreparable harm to Franchisor and Franchisor's remedy at law will be inadequate. Therefore, if Landlord threatens or actually breaches this provision, Franchisor shall be entitled to all remedies available to Franchisor at law or in equity, including, without limitation, injunctive relief.
11. Franchisor, along with its successors and assigns, is an intended third party beneficiary of the provisions of this Addendum.
12. Copies of any and all notices required or permitted hereby or by the Lease shall also be sent to Franchisor at 12700 Park Central Drive, Suite 1300, Dallas, Texas 75251 (Attn: General Counsel), or such other address as Franchisor shall specify by written notice to Landlord.
13. Under the Franchise Agreement, any lease for the location of a Comer Bakery Cafe is a subject to Franchisor's approval. Accordingly, the Lease is contingent upon such approval.
14. Landlord has approved for all purposes under the Lease the exterior elevations, exterior fixtures, signage, lighting and other exterior branding components attached to the Lease as Exhibit X-1 hereto (the "Final Branding Plan") and the schematic drawings/floor plans attached to the Lease as Exhibit X-2 (the "Preliminary Schematic Drawing(s)) of the improvements which Tenant

intends to be constructed in the Premises by Tenant as part of Tenant's Work. Landlord may not object to (nor shall Tenant be required to revise) any portion of the Tenant's plans and specifications which is in conformity with either the Final Branding Plan or the Preliminary Schematic Drawings. Landlord recognizes that Tenant may wish to construct the Tenant's Work with a unique design or appearance to further its "Corner Bakery Cafe" brand identity as further set forth on Tenant's plans and specifications and Landlord agrees not to unreasonably withhold its approval for such unique design or appearance.

WITNESS the execution hereof under seal.

LANDLORD:

FRANCHISEE:

DATE: _____

DATE: _____

Subscribed and sworn to before me this ____ day of _____, ____.

Subscribed and sworn to before me this ____ day of _____, ____.

Notary Public

Notary Public

My Commission expires: _____

My Commission expires: _____

**APPENDIX F
CORNER BAKERY STORED VALUE GIFT CARD PROGRAM
FRANCHISEE PARTICIPATION AGREEMENT**

THIS PARTICIPATION AGREEMENT (this "Agreement") is made and entered into this ____ day of _____, 20__, by and between CBC Restaurant Corp. ("CBC") and _____ ("Franchisee").

RECITALS

CBC and Franchisee have entered into a Corner Bakery Cafe Franchise Agreement under which Franchisee operates a franchised Comer Bakery Cafe ("Franchised Cafe").

Franchisee would like to participate in CBC's Stored Value Gift Card Program (the "Card Program") as outlined in the Corner Bakery Cafe Operating Manual (the "Manual") pursuant to which Franchisee will offer and sell to its customers stored value gift cards ("Gift Cards") redeemable for goods and services at the Franchised Cafe and other Corner Bakery Cafes not owned or operated by Franchisee.

NOW, THEREFORE, in consideration of Franchisee's participation in the Card Program, the mutual undertakings and commitments set forth herein, and other good and valuable consideration, receipt of which is hereby acknowledged by each of the parties hereto, the parties agree as follows:

1. **Participation.** Franchisee agrees to participate in the Card Program in accordance with the terms and policies as set forth in the Manual as may be modified by CBC in its sole discretion from time to time. Franchisee shall: (i) pay all Card Program fees as specified in the Manual including, but not limited to, Gift Card Transaction Fees, ACH Transfer Fees, and periodic Location Fees; and (ii) ensure that its bank account maintains a sufficient balance to cover all settlement obligations and applicable charges under the Card Program. Franchisee acknowledges and agrees that CBC may modify and/or terminate the Card Program at any time in its sole discretion.
2. **Service Agreement and Related Forms.** Franchisee agrees to sign a service or similar agreement(s) with CBC's approved vendor(s) that will administer the Card Program and pay all fees accruing under that agreement(s). Currently, Value-Link, LLC Bank of America Merchant Services serves as CBC's approved Card Program administrator. In order to participate in the Card Program, Franchisee must sign: (i) an Affiliated Issuer Service Agreement with Value-Link, LLC Bank of America Merchant Services; (ii) a FDNet User ID Authorization/Maintenance Form; and (iii) an ACH Credit and Debit Authorization Banking Information Form.
3. **Card Fact.** CBC has entered into a contract with CardFact, Ltd., which issues the Gift Cards and assists CBC with regards to regulatory compliance with gift card related consumer protection and unclaimed property laws. Notwithstanding the foregoing, Franchisee acknowledges and agrees that CBC cannot make any representations or provide any advice to Franchisee with regard to gift card laws and accounting policies and compliance with these laws and policies is Franchisee's sole and absolute responsibility.
4. **Reimbursement.** Upon termination, expiration or transfer of control of the Franchise Agreement or any interest therein or a transfer of the Franchised Cafe or all or substantially all of the assets of the Franchised Cafe, Franchisee shall pay to CBC an amount equal to that portion of all Gift Cards sold or otherwise issued by, through or on behalf of Franchisee which (i) remains unredeemed at the time of such termination, expiration or transfer, and (ii) which have been redeemed at Corner Bakery Cafes other than the Franchised Cafe prior to such termination, expiration or transfer but for which Franchisee has not then made full payment to CBC, its franchisee or designee or the transferee in accordance with CBC's then current policies and procedures.

5. **Compliance with Applicable Law and Indemnification.** Franchisee is solely responsible for complying with all applicable laws relating to the gift cards that Franchisee sells, including all escheat laws and accounting regulations related to gift card breakage. Franchisee is responsible for any federal, state or local sales, use, property or other taxes which may be imposed as a result of Franchisee's participation in the Card Program. Franchisee shall comply with and be bound by applicable law and the rules and regulations of the National Automated Clearing House Association Rules which are subject to change from time to time. Franchisee agrees to indemnify and hold CBC, its Affiliates, and other of CBC's franchisees harmless from any loss, damage or claim relating to or arising out of any failure to comply with applicable laws in connection with the Card Program.
6. **Miscellaneous.**
- A. **Venue and Jurisdiction.** This Agreement and the relationship created hereby shall be subject to the dispute resolution, venue, jurisdiction and choice of law provisions contained in the Franchise Agreement.
 - B. **Authority.** By executing this Agreement, the parties represent and warrant that each has the right and authority to enter into and to accept the terms and covenants of this Agreement, and that no third party has or claims an interest in any claim released by this Agreement.
 - C. **No Conflicts.** Each of the undersigned hereby represents and warrants that its execution of this Agreement does not violate any other agreement to which it is a party.
 - D. **Captions.** 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 of this Agreement.
 - E. **Counterparts.** This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.
 - F. **Entire Agreement.** This Agreement represents the complete, integrated, and entire agreement between the parties regarding the subject matter hereof, any may not be modified except in a writing signed by the parties.
 - G. **Severability.** The provisions of this Agreement are severable, and, in the event that any of them is held void and unenforceable as a matter of law, the remainder shall continue in full force and effect.
 - H. **Waiver.** No delay or omission by the parties hereto to exercise any right or power hereunder shall impair such right or power or be construed to be a waiver thereof.
 - I. **Survival.** The ~~Franchisee and the Principal~~parties expressly agree that the terms of this Agreement will survive the termination, expiration or transfer of the Franchise Agreement or any interest therein.

[Signature Page Follows.]

_____**IN WITNESS WHEREOF**, the parties have duly executed, sealed and delivered this Agreement as of the day and year first above written.

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

FRANCHISEE (INSERT NAME)

By: _____

Print Name: _____

Title: _____

RIDER 1

FRANCHISE AGREEMENT EXPIRATION DATE

TO: _____

The Franchised Cafe located at _____ first opened for business on _____.

The Initial Term of the Franchise Agreement for the Franchised Cafe expires on _____. If you desire to remain a franchisee for a Successor Term, you must give us your Renewal Notice no earlier than _____ (twelve months before the expiration date of the Franchise Agreement) and no later than _____ (six months before the expiration date).

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

EXHIBIT E

GENERAL RELEASE

GENERAL RELEASE

THIS GENERAL RELEASE ("Release") is executed on _____ by _____ ("Franchisee") and _____ (collectively, "Guarantors") as a condition of the (1) transfer of the Corner Bakery Cafe Area Development Agreement dated _____ ("Development Agreement") between Franchisee and CBC Restaurant Corp. ("CBC"); (2) transfer of the Corner Bakery Cafe Franchise Agreement dated _____ ("Franchise Agreement") between Franchisee and CBC; or (3) execution of a Successor Franchise Agreement by CBC and Franchisee.

1. **Release by Franchisee and Guarantors.** Franchisee (if Franchisee is an entity, on behalf of itself and its parent, subsidiaries and affiliates and their respective past and present officers, directors, shareholders, agents and employees, in their corporate and individual capacities and, if Franchisee is an individual, on behalf of himself/herself and his/her heirs, representatives, successors and assigns) and Guarantors (on behalf of themselves and their respective heirs, representatives, successors and assigns) (collectively, "Releasors") freely and without any influence forever release and covenant not to sue PIUM and its parent, subsidiaries and affiliates and their respective past and present officers, directors, shareholders, agents and employees, in their corporate and individual capacities, (collectively "Releasees") with respect to any and all claims, demands, liabilities and causes of action of whatever kind or nature, whether known or unknown, vested or contingent, suspected or unsuspected (collectively, "Claims"), which any Releasor ever owned or held, now owns or holds or may in the future own or hold, including, without limitation, claims arising under federal, state and local laws, rules and ordinances and claims arising out of, or relating to the [Development/Franchise] Agreement and all other agreements between any Releasor and any Releasee, arising out of, or relating to any act, omission or event occurring on or before the date of this Release, unless prohibited by applicable law.

2. **Risk of Changed Facts.** Franchisee and Guarantors understand that the facts in respect of which the release in Section 1 is given may turn out to be different from the facts now known or believed by them to be true. Franchisee and Guarantors hereby accept and assume the risk of the facts turning out to be different and agree that the release in Section 1 shall nevertheless be effective in all respects and not subject to termination or rescission by virtue of any such difference in facts.

3. **No Prior Assignment.** Franchisee and Guarantors represent and warrant that the Releasors are the sole owners of all Claims and rights released in Section 1 and that the Releasors have not assigned or transferred, or purported to assign or transfer, to any person or entity, any Claim released under Section 1.

4. **Covenant Not to Sue.** Franchisee and Guarantors (on behalf of Releasors) covenant not to initiate, prosecute, encourage, assist, or (except as required by law) participate in any civil, criminal, or administrative proceeding or investigation in any court, agency, or other forum, either affirmatively or by way of cross-claim, defense, or counterclaim, against any person or entity released under Section 1 with respect to any Claim released under Section 1.

5. **Complete Defense.** Franchisee and Guarantors: (a) acknowledge that the release in Section 1 shall be a complete defense to any Claim released under Section 1; and (b) consent to the entry of a temporary or permanent injunction to prevent or end the assertion of any such Claim.

6. **Successors and Assigns.** This Release will inure to the benefit of and bind the successors, assigns, heirs and personal representatives of **CBC** and each Releasor.

7. **Capitalized Terms.** Any capitalized terms that are not defined in this Release shall have the meaning given them in the Development Agreement or the Franchise Agreement, as the context requires.

IN WITNESS WHEREOF, Franchisee and Guarantors have executed this Release as of the date shown above.

ATTEST:

By: _____

Print Name: _____

FRANCHISEE:

By: _____

Print Name: _____

Title _____

Date: _____

WITNESS:

Print Name: _____

GUARANTOR:

Print Name: _____

Date: _____

WITNESS:

Print Name: _____

GUARANTOR:

Print Name: _____

Date: _____

EXHIBIT F

CONFIDENTIALITY AGREEMENT

CONFIDENTIALITY AGREEMENT

THIS AGREEMENT is made as of _____, ("Effective Date"), by _____, with its principal place of business at _____ ("Applicant") and certain of Applicant's employees identified below ("Employees") in favor of CBC Restaurant Corp. ("CBC").

RECITALS

As the result of the expenditure of time, skill, effort and money, CBC has developed and owns a unique and distinctive system ("System") relating to the establishment and operation of bakery cafe styled restaurants that operate under the trade names Corner Bakery Cafe® and Corner Bakery® (collectively, "Corner Bakery Cafes").

Applicant has expressed interest in purchasing a Corner Bakery Cafe franchise from CBC to operate one or more Corner Bakery Cafes.

In order to evaluate the possibility of entering into a franchise agreement with CBC to establish and operate one or more Corner Bakery Cafes, Applicant and Employees desire to receive from CBC certain confidential business information including, but not limited to the information contained in the Corner Bakery Cafe Operations Manual ("Manual"). Applicant and Employees recognize the importance of maintaining the confidentiality of this information.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Applicant and Employees agree as follows:

1. Confidential Information

A. Definition of Confidential Information. As used in this Agreement, the term "Confidential Information" means all information that has been created, discovered or developed by CBC and that is in any way proprietary to CBC. Confidential Information includes, but is not limited to, trade-secrets, know-how, methodologies, System information, technical information, statistics, software, hardware, materials, plans, designs, schematics, reports, studies, notes, analyses, summaries, business, market and development plans, financial information and projections, artwork, information regarding the manner and methods of locating a site for, developing, operating and promoting Comer Bakery Cafes, information contained in the Operations Manual, information regarding the retail and commercial operations of CBC and its affiliates, and all information that: (1) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. Confidential Information may be in written form or obtained orally.

B. Exclusion from Definition of Confidential Information. The term "Confidential Information" does not include: (1) information that is now or hereafter becomes publicly known through no fault of Applicant or Employees, or by any other person, firm or corporation affiliated with Applicant or Employees; (2) except as set forth in Section 2.D., information that was in Applicant's or Employees' possession before the Effective Date; and (3) information that comes into Applicant's or Employees' possession after the Effective Date from a source not under an obligation of secrecy to CBC. As used in this Agreement, the phrase

“publicly known” means readily accessible to the public in a written publication, and shall not include information which is available only by a substantial searching of the published literature and information the substance of which must be pieced together from a number of different publications and sources. The burden of proving that information or skills and experience are not Confidential Information shall be on the party asserting such exclusion.

C. **Treatment of Confidential Information.** Applicant and Employees hereby acknowledge, understand and agree that the Confidential Information: (1) is the exclusive and confidential property of CBC or its affiliates and incorporates trade secrets and copyrights owned by them; (2) gives CBC and its affiliates some competitive business advantage or the opportunity of obtaining such an advantage, the disclosure of which could be detrimental to the interests of CBC and its affiliates; and (3) is not generally known by non-CBC personnel. Applicant and Employees shall at all times treat the Confidential Information in accordance with this Agreement.

D. **No License.** This Agreement entitles Applicant and Employees to use the Confidential Information solely in connection with Applicant's exploration of the Corner Bakery Cafe franchise opportunity. No license, express or implied, in the Confidential Information is granted to Applicant or Employees other than to use the Confidential Information in the manner and to the extent authorized by this Agreement.

2. **Covenants of Applicant and Employees.**

As a consequence of Applicant's and Employees' acquisition or anticipated acquisition of Confidential Information, Applicant and Employees will occupy a position of trust and confidence with respect to CBC's affairs and business. In view of the foregoing, Applicant and Employees agree that it is reasonable and necessary that Applicant and Employees agree, while this Agreement is in effect, to the following:

A. **Limited Use.** Applicant and Employees shall use the Confidential Information solely for purposes of evaluating whether or not Applicant will invest in a Corner Bakery Cafe franchise. Neither Applicant nor Employees shall make any other uses of the Confidential Information. If Applicant does not invest in a Corner Bakery Cafe franchise, the obligations set forth in this Section 2 will remain in effect for a period of 12 months from the date Applicant elects not to pursue the Corner Bakery Cafe franchise relationship. If, within 12 months after the date Applicant elects not to pursue the Corner Bakery Cafe franchise relationship, Applicant or any Employee opens and operates a business whose method of operation or trade dress is similar to that of a Corner Bakery Cafe or the System, a violation of this Agreement will be presumed.

B. **No Disclosure.** Applicant and Employees shall not disclose the Confidential Information to any person or entity other than Applicant's attorney, accountant or other representative as necessary to evaluate the Corner Bakery Cafe franchise opportunity and agree to protect the Confidential Information against unauthorized disclosure using the same degree of care, but no less than a reasonable degree of care, as Applicant and Employees use to protect Applicant's confidential information.

C. **No Use, Copying or Transfer.** Applicant and Employees shall not use, copy or transfer Confidential Information in any way and shall protect the Confidential Information against unauthorized use, copying or transfer using the same degree of care, but no less than a reasonable degree of care, as Applicant and Employees use to protect Applicant's confidential

information. This prohibition against use, copying, or transfer of Confidential Information includes, but is not limited to, selling, licensing or otherwise exploiting, directly or indirectly, any products or services which embody or are derived from Confidential Information. Applicant and Employees further agree not to remove, overprint, or deface any notice of copyright, trademark, logo, or other notices of ownership from any Confidential Information.

D. **Applicability.** The covenants in this Agreement shall apply to all Confidential Information disclosed by CBC to Applicant or Employees prior to the Effective Date.

E. **Solicitation.** Applicant and Employees agree that neither they nor any of their agents, employees or representatives shall knowingly employ or seek to employ any person then employed by CBC or any affiliate, subsidiary, developer or franchisee of CBC, or otherwise directly or indirectly induce such person to leave his or her employment.

3. **Return of Confidential Information.** Nothing in this Agreement obligates Applicant or CBC to enter into a development agreement, franchise agreement or any other agreement. Applicant acknowledges that CBC's decision to consider Applicant for any Corner Bakery Cafe franchise opportunity and the terms of any contracts will be made by CBC in its sole discretion. If, at any time, CBC determines that it does not want Applicant to become a Corner Bakery Cafe developer or franchisee, or Applicant determines that it does not want to invest in one or more Corner Bakery Cafe franchises, or if CBC requests, at any time and for any reason, that Applicant and Employees do so, Applicant and Employees agree to: (A) immediately cease to use the Confidential Information; (B) immediately return to CBC the Confidential Information and all copies thereof (whether or not such copies were authorized) and cause any third party to whom disclosure was made (whether or not such disclosure was authorized) to do the same; and (C) at the request of CBC, certify in writing that Applicant, Employees and all others to whom Applicant has provided such Confidential Information, have complied with subsections (A) and (B) above.

4. **Notice to CBC.** Applicant and Employees shall immediately notify CBC of any information that comes to their attention which indicates that there has been or may be a loss of confidentiality of any of the Confidential Information or a breach of this Agreement.

5. **Waiver.** Applicant and Employees acknowledge that no waiver by CBC of any breach by Applicant or Employees of any provision of this Agreement shall be deemed a waiver of any preceding or succeeding breach of the same or any other provision of this Agreement. No such waiver shall be effective unless in writing and then only to the extent expressly set forth in writing.

6. **Enforcement.**

A. **Governing Law.** With respect to all claims, controversies, disputes, and/or actions, this Agreement shall be interpreted and construed under Texas law, without regard to Texas choice of law rules.

B. **Forum.** To the extent any disputes cannot be resolved directly between Applicant, Employees and CBC, Applicant and Employees irrevocably (1) submit to the jurisdiction of the state courts of Texas, located in Dallas County, Texas, and the United States Federal District Court for the Northern District of Texas, Dallas Division; (2) waive all questions of personal jurisdiction for the purpose of effectuating this provision; (3) agree that service of process may be made upon any of them in any proceeding relating to, or arising out of, this

Agreement (including the relationship contemplated by this Agreement) by any means allowed by Texas or federal law; and (4) agree that venue for any proceeding relating to, or arising out of, this Agreement shall be in Dallas County, Texas; provided we may bring an action for injunctive or other extraordinary relief in any state or federal district court which has jurisdiction.

C. Injunctive relief. It is hereby understood and agreed that: (1) a breach of this Agreement by Applicant or Employees would result in irreparable harm to CBC, the extent of which would be difficult to ascertain; (2) monetary damages would be an inadequate remedy for such a breach; and (3) CBC shall be entitled to specific performance and injunctive or other equitable relief as a court may deem appropriate in the event of such a breach without posting a bond or other security and without waiving any additional rights or remedies otherwise available to CBC at law or in equity or by statute.

7. Miscellaneous.

A. Severability. If a court of competent jurisdiction deems any provision of this Agreement invalid, unreasonable or unenforceable, then the remaining provisions will not be affected, and the invalid provision may be enforced to the extent deemed reasonable by the court.

B. Headings. Section headings in this Agreement are for reference only and shall not be construed as modifying any provisions of this Agreement.

C. Counterparts. This Agreement may be executed in counterparts, and each copy so executed and delivered shall be deemed an original.

IN WITNESS WHEREOF, the parties have duly executed, sealed and delivered this Agreement as of the day and year above written.

APPLICANT:

By: _____
Print Name: _____
Date: _____

EMPLOYEES:

By: _____

Print Name: _____

Date: _____

By: _____

Print Name: _____

Date: _____

By: _____

Print Name: _____

Date: _____

By: _____

Print Name: _____

Date: _____

EXHIBIT G

LIST OF FRANCHISED LOCATIONS

LIST OF FRANCHISED LOCATIONS

FRANCHISEE	CAFE ADDRESS	CITY	STATE	ZIP	PHONE
WKS Bakery Café, Inc.	16222 North 83 rd Ave.	Peoria	AZ	85382	623.878.4550
<u>WKS Bakery Cafe, Inc.</u>	<u>454 N. 3rd St. Ste. 1065</u>	<u>Phoenix</u>	<u>AZ</u>	<u>85004</u>	<u>602.252.1346</u>
S&B Development, Inc.	5617 Paseo Del Norte	Carisbad	CA	92008	760.444-3105
<u>The Cutter Group</u>	<u>2253 E. Briarwood Ave. Suite B5-509</u>	<u>Centennial</u>	<u>CO</u>	<u>80122</u>	<u>303.794.3900</u>
The Cutter Group	500 16th Street	Denver	CO	80202	303.572-0166
The Cutter Group	1147 16th Street	Denver	CO	80202	303.825-0525
The Cutter Group	1601 Mayberry Drive, #102	Denver	CO	80129	303.471.6400
The Cutter Group	2253 E. Briarwood 4235 S. College Ave. Suite B5-500	Centennial <u>Centennial</u>	CO	8042230525	303.704.300097 <u>0.377.1200</u>
Resolute Bakeries, LLC	108 Market Street	Flowood	MS	39232	601.919.9797
<u>Resolute Bakeries, LLC</u>	<u>149 Grandview Blvd.</u>	<u>Madison</u>	<u>MS</u>	<u>39110</u>	<u>601.607.7377</u>
Briad Group	850 Route 3, Suite 115	Clifton	NJ	07012	973.272.1422
<u>Brothers and Friends Enterprises, LLC</u>	<u>3300 Monroe Avenue</u>	<u>Pittsford</u>	<u>NY</u>	<u>14618</u>	<u>585.662.5684</u>
<u>Brothers and Friends Enterprises, LLC</u>	<u>7662 Transit Road</u>	<u>Williamsville</u>	<u>NY</u>	<u>14221</u>	<u>716.204.8239</u>
<u>The Rose Group</u>	<u>2 Coulter Avenue</u>	<u>Armored</u>	<u>EA</u>	<u>19003</u>	<u>610.896-0703</u>
<u>The Rose Group</u>	<u>100 Welsh Road</u>	<u>Horsham</u>	<u>EA</u>	<u>19044</u>	<u>215.659.5126</u>
The Rose Group	205 Mall Blvd.	King of Prussia	PA	19406	610.337-0385
The Rose Group	1701 Market Street Floor 1 6 Penn Center	Philadelphia	PA	19103	215.569.2533
The Rose Group	2 Coulter Avenue	Armored	PA	19003	610.896-0703
The Rose Group	100 Welsh Road	Hersham	PA	19044	215.659.5126
Bakery Ventures I, Ltd.	1350A George Dieter	El Paso	TX	79936	915.855.1873
<u>Bakery Ventures I, Ltd.</u>	<u>655 Sunland Park Dr.</u>	<u>El Paso</u>	<u>TX</u>	<u>79912</u>	<u>915.584.4600</u>
Fairview Capital Management Group, LLC	1000 Main Street, Suite 101	Houston	TX	77002	713.651.0673

Fairview Capital Management Group, LLC	2615 Southwest Freeway, Suite 100	Houston	TX	77098	713.520.8211
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<u>Fairview Capital Management Group, LLC</u>	<u>9630 Westheimer Road, Suite 1000</u>	<u>Houston</u>	<u>TX</u>	<u>77063</u>	<u>713.782.1702</u>
<u>Whistler Bakery Group, LLC</u>	<u>18720 Stone Oak Parkway</u>	<u>San Antonio</u>	<u>TX</u>	<u>78258</u>	<u>210.441.4547</u>
<u>RKO Bakeries, LLC</u>	<u>3306 Troup Highway</u>	<u>Tyler</u>	<u>TX</u>	<u>75701</u>	<u>903.592.0000</u>

Cornerstone Foods	610 Foothill Blvd.	Salt Lake City	UT	84113	801.583.2000
Cornerstone Foods	6227 South State Street, Suite 12	Murray	UT	84107	801.262.5555

LIST OF DEVELOPERS

DEVELOPER	ADDRESS	TERRITORY	PHONE
WKS Bakery Café, Inc.	2735 Carson Street, Suite 200 Lakewood, CA 90815	Merceda County, Arizona	582-425-1402
Bakery Ventures I, LTD	5835 Onix Dr., Suite 300 El Paso, TX 79912	El Paso County, Texas Arizona; Donane County, New Mexico; Pima County Arizona, Texas	915-581-8314
Brothers and Friends Enterprises, LLC	27 Gerner Crossing, Fairport, NY 14450	Rochester and Buffalo New York	586-233-0454
GB Root Holdings, LLC	10362 Canoe Creek Circle, Boca Raton, FL 33498	Dade, Broward and Palm Beech Counties, Florida	305-004-3673
Gerrardone Foods, LLC	5645 Waterbury Way D-103, Salt Lake City, UT 34124	Utah	801-272-6667
Fairview Capital Mgmt	318 B West 28th Street, Houston, TX 77008	Houston, Texas	832-426-4746
Resolute Bakeries, LLC	1050 Northpark Drive, Suite B-2 Ridgeland, MS 39157	Mississippi	601-057-8858
RKO Bakeries, LLC	6205 S. Broadway Avenue, Tyler, TX 75703	East Texas and Northern Louisiana	003-534-1114
The Bried Group	78 Okner Parkway Livingston, NJ 07030	North New Jersey & Long Island, New York	073-507-6433
The Cutter Group	2253 East Briarwood Avenue Centennial, CO 80122	Colorado	303-794-4240
The Rose Group - <u>Buen Hospitality, Inc.</u>	29 Friends Lane Newtown, PA 18940 Center Pkwy, Ste 100, Pleasanton, CA 94506	Pennsylvania Counties of: Chester, Montgomery, Delaware, Philadelphia, Bucks, Berks, Lehigh, Northampton and Monroe; Maryland, Counties of: Anne Arundel, Howard, Carroll, Baltimore, Hartford, Baltimore City, Queen Anne's, Cecil, Kent, Caroline, Talbot, Dorchester, New Jersey; Counties of: Camden, Burlington, Mercer, Gloucester, Atlantic, Salem, Cumberland and Cape May; Delaware, Counties of: Kent and New Castle <u>Alameda, Contra Costa, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano, Sonoma, Marin and Napa Counties, California</u>	215-867- 4850 <u>925-884- 0800</u>
PhaseNext Hospitality	6411 Palemone Drive Piano, TX 75024	Non-traditional venues	214.563.8394
Preferred Hospitality, Inc.	7119 Indiana Avenue, Riverside, CA 92504	Riverside County and portions of San Bernardino County	951-682-9850

S&B Development, Inc.		1237 Camino Del Mar Suite G Del Mar, CA 92014	San Diego County, California	858-755-0850
The Cutter Group	<u>2253 East Briarwood Avenue</u> <u>Centennial, CO 80122</u>	Colorado	303-794-4240	
CB Rest Holdings, LLC.	<u>2561 SW 121st Terrace,</u> <u>Miramar, FL 33025</u>	<u>Dade, Broward and Palm</u> <u>Beach Counties, Florida</u>	786-539-4984	
RKO Bakeries, LLC	<u>6205 S. Broadway Avenue,</u> <u>Tyler, TX 75703</u>	<u>East Texas and Northern</u> <u>Louisiana</u>	903-534-1111	
Resolute Bakeries, LLC	<u>272 S. Perkins St, Ste. 500</u> <u>Ridgeland, MS 39157</u>	Mississippi	601-957-8858	
Brothers and Friends Enterprises, LLC	<u>27 Center Crossing, Fairport,</u> <u>NY 14450</u>	<u>Rochester, Buffalo and</u> <u>Syracuse,</u> <u>New York</u>	585-233-0454	
The Rose Group	<u>29 Friends Lane</u> <u>Newtown, PA 18940</u>	<u>Pennsylvania Counties of:</u> <u>Chester, Montgomery,</u> <u>Delaware, Philadelphia,</u> <u>Bucks, Berks, Lehigh,</u> <u>Northampton and Monroe;</u> <u>Maryland, Counties of: Anne</u> <u>Anundel, Howard, Carroll,</u> <u>Baltimore, Hartford, Baitimore</u> <u>City, Queen Anne's, Cecil,</u> <u>Kent, Caroline, Talbot,</u> <u>Dorchester; New Jersey,</u> <u>Counties of: Camden,</u> <u>Buriington, Mercer,</u> <u>Gloucester, Atlantic, Salem,</u> <u>Cumberiand and Cape May;</u> <u>Delaware, Counties of: Kent</u> <u>and New Castle</u>	215-579-9220	
Fairview Capital Mgmt	<u>318 B West 28th Street</u> <u>Houston, TX 77008</u>	<u>Harris, Montgomery, Fort</u> <u>Bend, Brazoria and Galveston</u> <u>Counties, Texas</u>	832-426-4716	
MX Restaurants and Bakeries, Inc.	<u>3421 W. Business 83, Ste 4,</u> <u>McAllen, TX 78501</u>	<u>Hidalgo, Cameron, Neuces</u> <u>and Webb Counties, Texas</u>	972.619.4120	
Whistler Bakery Group LLC:	4040 Broadway, Suite 615, San Antonio, TX 78209	San Antonio, Texas	210.416.7865	
WKS Bakery Café, Inc. Cornerstone Foods, LLC	2735 Corson Stroot, Suite 200 Lakewood, CA 90815 Waterbury Way D-103, Salt Lake City, UT 84121	Mericopa County, Arizona	582-425- 6472801-272- 6667	
PhaseNext Hospitality	<u>6141 Palomino Drive</u> <u>Plano, TX 75024</u>	Non-traditional venues	763-222-6646	

**LIST OF FRANCHISEES OR DEVELOPERS WHO CLOSED A CAFE OR
LEFT THE SYSTEM IN ~~2010~~2011**

~~The Rose Group~~
~~Harry Rose~~
~~29 Friends Lane~~
~~Newtown, PA 18940~~

~~215-570-9220~~

<u>Name</u>	<u>Address</u>	<u>Phone Number</u>
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EXHIBIT H
FINANCIAL STATEMENTS



Consolidated Financial Statements and
Report of Independent Certified Public Accountants

IFCB Holding Corporation

December 25, 2011 and December 26, 2010

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Report of Independent Certified Public Accountants

Board of Directors and Stockholders
IFCB Holding Corporation

Audit Tax Advisory

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We have audited the accompanying consolidated balance sheets of IFCB Holding Corporation and subsidiaries (collectively, the "Company") as of December 25, 2011 (Successor) and December 26, 2010 (Predecessor), and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive income (loss) and cash flows for the periods from June 10, 2011 through December 25, 2011 (Successor), December 27, 2010 through June 9, 2011 (Predecessor) and the year ended December 26, 2010 (Predecessor). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IFCB Holding Corporation and subsidiaries as of December 25, 2011 (Successor) and December 26, 2010 (Predecessor), and the results of their operations and their cash flows for the period from June 10, 2011 through December 25, 2011 (Successor), the period from December 27, 2010 through June 9, 2011 (Predecessor) and the year ended December 26, 2010 (Predecessor), in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

San Francisco, California
April 20, 2012

IFCB Holding Corporation

CONSOLIDATED BALANCE SHEETS

December 25, 2011 and December 26, 2010

(In thousands except share and per share amounts)

	2011 (Successor)	2010 (Predecessor)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,161	\$ 28,288
Restricted cash	2,187	1,923
Accounts receivable, net	4,788	4,569
Other receivables	1,077	566
Inventories	5,384	4,952
Prepaid expenses and other assets	3,360	2,140
Income taxes receivable	202	-
Deferred tax assets, net	4,353	3,688
Total current assets	36,512	46,126
Property and equipment, net	114,818	73,184
Deferred tax assets, net	-	10,252
Debt issuance costs, net	8,282	398
Goodwill	133,070	3,775
Other intangible assets	136,201	10,000
Other assets	769	807
Total assets	<u>\$ 429,652</u>	<u>\$ 144,542</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 13,461	\$ 12,001
Accrued liabilities	32,009	28,958
Current maturities of long-term debt	1,300	1,150
Income taxes payable	-	360
Total current liabilities	46,770	42,469
Long-term debt	178,306	127,182
Deferred lease incentives	2,474	10,636
Deferred tax liabilities, net	50,346	-
Other liabilities	21,079	2,135
Total liabilities	298,975	182,422
Commitments and contingencies (Note 9)		
Stockholders' equity (deficit):		
Series B 13.5% cumulative compounding preferred stock, 1,500,000 shares authorized; 961,063 shares issued and outstanding; recorded at liquidation preference (Predecessor)	-	38,313
Class A common stock, \$.001 par value; 4,000,000 shares authorized; 377,326 shares issued and outstanding (Predecessor)	-	1
Common stock, \$.01 par value; 200,000 shares authorized; 133,841 shares issued and outstanding (Successor)	1	-
Additional paid-in capital	138,340	54,940
Accumulated deficit	(7,664)	(131,134)
Total stockholders' equity (deficit)	130,677	(37,880)
Total liabilities and stockholders' equity (deficit)	<u>\$ 429,652</u>	<u>\$ 144,542</u>

The accompanying notes are an integral part of these consolidated financial statements.

IFCB Holding Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

	June 10, 2011 to <u>December 25, 2011</u> (Successor)	December 27, 2010 to June 9, 2011 (Predecessor)	Year ended December 26, 2010 (Predecessor)
Revenues:			
Restaurants	\$ 63,736	\$ 51,248	\$ 109,792
Wholesale bakeries	21,146	15,492	30,742
Retail bakery cafes	127,795	100,668	224,947
Franchise	<u>1,588</u>	<u>700</u>	<u>1,365</u>
Total revenues	214,265	168,108	366,846
Operating costs and expenses:			
Cost of revenues	54,514	42,837	91,462
Operating expenses	123,430	97,861	213,473
Depreciation and amortization	12,167	8,086	20,256
General and administrative	19,221	17,629	26,473
Pre-opening costs	236	-	240
Gain on store closure	-	-	(139)
Stock-based compensation expense	<u>-</u>	<u>658</u>	<u>698</u>
Total operating costs and expenses	<u>209,568</u>	<u>167,071</u>	<u>352,463</u>
Operating income	4,697	1,037	14,383
Interest and other income (expense):			
Other income	2	3	19
Interest expense	(9,028)	(3,036)	(7,800)
Loss on asset dispositions, net of proceeds	<u>(113)</u>	<u>(1)</u>	<u>(713)</u>
Total interest and other income (expense), net	<u>(9,139)</u>	<u>(3,034)</u>	<u>(8,494)</u>
Income (loss) before income taxes	(4,442)	(1,997)	5,889
Income tax provision (benefit)	<u>(1,278)</u>	<u>(595)</u>	<u>2,606</u>
Net income (loss)	<u>\$ (3,164)</u>	<u>\$ (1,402)</u>	<u>\$ 3,283</u>

The accompanying notes are an integral part of these consolidated financial statements.

IFCB Holding Corporation

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the period from June 10, 2011 through December 25, 2011

(In thousands except shares)

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid-in Capital	Deficit	Total
Successor: IFCB Holding Corporation					
Issuance of common stock for cash at \$1,000 per share	133,841	\$ 1	\$ 133,840	\$ -	\$ 133,841
Issuance of warrants to shareholders	-	-	4,500	(4,500)	-
Net loss	-	-	-	(3,164)	(3,164)
Balance at December 25, 2011	<u>133,841</u>	<u>\$ 1</u>	<u>\$ 138,340</u>	<u>\$ (7,664)</u>	<u>\$ 130,677</u>

The accompanying notes are an integral part of these consolidated financial statements.

IFCB Holding Corporation

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE INCOME (LOSS)

For the period from December 27, 2010 through June 9, 2011 and the year ended December 26, 2010

(In thousands except shares)

	Series B Preferred Stock		Class A Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
<i>Predecessor: Il Fornaio (America) Corporation</i>								
Balance at December 27, 2009	961,063	\$ 33,755	377,326	\$ 1	\$ 54,242	\$ (129,859)	\$ (425)	\$ (42,286)
Accrual of preferred stock dividends	-	4,558	-	-	-	(4,558)	-	-
Stock-based compensation: preferred stock option special accrual	-	-	-	-	534	-	-	534
Stock-based compensation: common stock options	-	-	-	-	164	-	-	164
Stock options exercised	-	-	1,158	-	-	-	-	-
Comprehensive income:								
Cash flow hedge gain, net of \$264 tax (See Note 1)	-	-	-	-	-	-	425	425
Net income	-	-	-	-	-	3,283	-	3,283
Comprehensive income	-	-	-	-	-	-	-	3,708
Balance at December 26, 2010	<u>961,063</u>	<u>\$ 38,313</u>	<u>378,484</u>	<u>\$ 1</u>	<u>\$ 54,940</u>	<u>\$ (131,134)</u>	<u>\$ -</u>	<u>\$ (37,880)</u>
Accrual of preferred stock dividends	-	2,075	-	-	-	(2,075)	-	-
Stock-based compensation: preferred stock option special accrual	-	-	-	-	250	-	-	250
Stock-based compensation: common stock options	-	-	-	-	23	-	-	23
Net loss	-	-	-	-	-	(1,402)	-	(1,402)
Balance at June 9, 2011	<u>961,063</u>	<u>\$ 40,388</u>	<u>378,484</u>	<u>\$ 1</u>	<u>\$ 55,213</u>	<u>\$ (134,611)</u>	<u>\$ -</u>	<u>\$ (39,009)</u>

The accompanying notes are an integral part of these consolidated financial statements.

IFCB Holding Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	June 10, 2011 to December 25, 2011 (Successor)	December 27, 2010 to June 9, 2011 (Predecessor)	Year ended December 26, 2010 (Predecessor)
Cash flows from operating activities:			
Net income (loss)	\$ (3,164)	\$ (1,402)	\$ 3,283
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	11,727	8,086	20,256
Amortization of deferred lease incentives	(31)	(680)	(1,252)
Amortization and write-off of debt issuance costs	601	86	179
Amortization of intangibles	1,066	-	-
Loss on disposal of fixed assets	113	1	713
Deferred income taxes	(1,711)	(92)	3,373
Interest paid in kind	256	216	849
Stock-based compensation expense	-	273	698
Changes in:			
Restricted cash	(133)	(130)	(221)
Accounts receivable and other receivables	375	(303)	(836)
Inventories	(592)	161	(432)
Prepaid expenses and other assets	(259)	(956)	(159)
Other long term assets	26	4	-
Accounts payable	(783)	2,242	699
Accrued liabilities and other liabilities	6,113	895	3,947
Deferred rent	380	6	(199)
Income taxes receivable/payable	(266)	(1,258)	507
Net cash provided by operating activities	13,718	7,149	31,405
Cash flows from investing activities:			
Capital expenditures	(8,254)	(3,516)	(9,242)
Proceeds from sales of fixed assets	17	4	1,412
Lease incentives received	1,352	-	760
Net cash used in investing activities	(6,885)	(3,512)	(7,070)
Cash flows from financing activities:			
Issuance of common stock	133,841	-	-
Proceeds from term loan	130,000	-	-
Proceeds from mezzanine debt	50,000	-	-
Payments to former shareholders	(198,866)	-	-
Debt issuance costs	(8,876)	-	-
Repayment of old debt	(118,693)	(10,353)	(7,632)
Repayments of new debt	(650)	-	-
Net cash used in financing activities	(13,244)	(10,353)	(7,632)
Increase (decrease) in cash and cash equivalents	(6,411)	(6,716)	16,703
Cash and cash equivalents, beginning of period	21,572	28,288	11,585
Cash and cash equivalents, end of period	\$ 15,161	\$ 21,572	\$ 28,288
Supplemental disclosure of cash flow information:			
Interest paid	\$ 5,775	\$ 2,877	\$ 6,921
Income taxes paid (refund)	(280)	744	824
Non-cash activities:			
Preferred stock dividend accretion	\$ -	\$ 2,075	\$ 4,558
Capital asset acquisitions, not yet paid	1,344	743	1,406
Interest paid in kind	256	216	849
Issuance of warrants	4,500	-	-

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 – Operations and significant accounting policies

Operations

IFCB Holding Corporation (“IFCB”, “Successor” or the “Company”), a Delaware Corporation, through its wholly owned subsidiaries, is engaged in the operation and franchising of restaurants and the production and sale of Italian bakery products for the wholesale and retail markets. At December 25, 2011, the Company’s subsidiaries owned and operated 22 Italian white tablecloth restaurants under the Il Fornaio brand, 103 retail bakery cafes under the Corner Bakery Cafe brand and 2 wholesale bakeries in California, Nevada, Colorado, Washington, Illinois, Washington, D.C., Georgia, Maryland, Texas and Virginia. In addition, the Company’s subsidiary franchised 26 retail bakery cafes under the name “Corner Bakery Cafe” in Arizona, Colorado, Mississippi, Pennsylvania, New York, New Jersey, Utah, California and Texas as of December 25, 2011.

IFCB was formed in April 2011 and began operations on June 10, 2011. The accompanying consolidated financial statements are reflective of a change in ownership of the Company’s subsidiaries (the “Acquisition”) that occurred as of June 10, 2011 (the “Acquisition Date”) (See Note 2). The accompanying consolidated statements of operations, stockholders’ equity (deficit) and comprehensive income (loss), and cash flows present the results of operations and cash flows of the Company’s subsidiaries for the periods preceding the change in ownership as “Predecessor” and present the results of operations and cash flows of the Company and its subsidiaries for the periods subsequent to the change in ownership as “Successor”. In most cases, the Notes refer to the operating activities of the Predecessor or Successor separately, although in some cases the Notes refer to operating activity for 2011 on a combined full year basis.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Il Fornaio (America) Corporation and CBC Restaurant Corp (the “Subsidiary Entities”). Intercompany balances and transactions have been eliminated in consolidation.

Fiscal year

The Company operates on a 52/53-week fiscal year ending on the last Sunday in December. The fiscal years ending December 25, 2011 and December 26, 2010 each contained 52 weeks of operations.

Note 1 – Operations and significant accounting policies (continued)

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. Significant estimates include reserves for group insurance and workers' compensation, impairment of long-lived assets, fair values of assets acquired in the change in ownership referenced above, valuation of deferred tax assets, and fair values of the Company's stock and options to purchase the Company's stock (Predecessor).

Cash and cash equivalents

Cash and cash equivalents consist primarily of highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are carried at cost which approximates market value. Cash balances may exceed federally insured limits from time to time.

Restricted cash

Restricted cash represents cash restricted for the Subsidiary Entities' voluntary disability insurance plan and health benefit providers, and CBC Restaurant Corp.'s franchisee advertising funds.

Accounts receivable

Accounts receivable consist primarily of amounts due from wholesalers, retailers, and offsite catering customers, and are net of allowances for doubtful accounts of \$259,000 and \$392,000 as of December 25, 2011 and December 26, 2010, respectively. The Subsidiary Entities maintain an allowance for doubtful accounts based upon the expected collectability of accounts receivable. The Subsidiary Entities estimate bad debt allowances based on their historical write-offs and the age of their receivables. The Subsidiary Entities determine past due status based on contractual terms. If actual collection trends change, revisions to the estimated allowances may be required. The Subsidiary Entities write off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to bad debt expense. Two customers represented 48% and 9% of total receivables at December 25, 2011 and 40% and 11% of total receivables at December 26, 2010.

Inventories

Inventories, consisting primarily of wine, liquor, food products and operating supplies (primarily packaging), are stated at the lower of cost using the first-in, first-out method ("FIFO"), or market.

Note 1 – Operations and significant accounting policies (continued)

Inventories (continued)

Inventories are summarized as follows at December 25, 2011 and December 26, 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Bakery - finished goods	\$ 562	\$ 610
Bakery - raw materials	1,949	1,468
Restaurant and cafe	<u>2,873</u>	<u>2,874</u>
Totals	<u>\$ 5,384</u>	<u>\$ 4,952</u>

Property and equipment

Property and equipment are stated at cost and include interest on funds borrowed to finance construction. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives: leasehold improvements—lesser of the lease term (including lease renewal options where failure to exercise such renewal options would result in an economic penalty such that the renewal appears reasonably assured) or the life of improvements; furniture, fixtures and equipment—three to ten years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the Company's consolidated statement of operations for the period. The costs of maintenance and repairs are charged to operations as incurred. Significant renewals and betterments are capitalized.

Interest in the amount of \$39,000, \$2,000 and \$0 was capitalized during the periods from June 10, 2011 (Acquisition Date) to December 25, 2011, December 27, 2010 to June 9, 2011 and the year ended December 26, 2010, respectively. These capitalized amounts were primarily related to leasehold improvements for restaurants and bakery cafes under development.

Rent expense

Minimum rental expenses are recognized on a straight-line basis over the entire term of the lease including lease renewal options and build-out periods where failure to exercise such renewal options would result in an economic penalty such that the renewal appears reasonably assured and the build-out period takes place prior to the restaurant opening or lease commencement date. Therefore, the amortization period can include a construction period prior to the restaurant or bakery opening. Amortization expenses during the construction period are classified as pre-opening expenses on the accompanying consolidated statements of operations. When a lease contains a predetermined fixed escalation of minimum rents, the related expense is recognized on a straight-line basis and the difference between the recognized rental expense and the amounts payable under the lease is recorded as deferred rent.

Note 1 – Operations and significant accounting policies (continued)

Rent expense (continued)

The Subsidiary Entities also receive tenant allowances, which are treated as deferred lease incentives for operating leases. Deferred lease incentives are amortized over the base term of the lease (including the construction period) as a reduction to rent expense. Renewal periods are included in the lease term only if they are reasonably assured. Deferred rent is presented with deferred lease incentives in the accompanying consolidated financial statements.

Certain leases provide for contingent rents that are not measurable at the inception of the lease because they are based on a percentage of sales that are in excess of a predetermined breakpoint. These amounts are excluded from minimum rent but are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

Unfavorable lease liabilities

Unfavorable lease liabilities represent liabilities for leases where the contracted rental rates exceeded current market rates at the Acquisition Date. Unfavorable lease liabilities are being amortized over the lives of the related leases (ranging from 3 to 15 years). The amortization is recorded as an offset to rental expense.

Impairment of long-lived assets

Long-lived assets, including identifiable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Assets held and used are reviewed on an individual restaurant and bakery basis, which is the lowest level at which there are identifiable cash flows. Recoverability of assets to be held and used is initially measured by a comparison of the carrying value of the assets to the future undiscounted net cash flows expected to be generated by the assets. If such assets are determined to be impaired, the impairment to be recognized is measured as the difference between the related carrying amounts and estimated fair values. No impairment charges were recorded in 2011 or 2010.

Note 1 – Operations and significant accounting policies (continued)

Goodwill and other intangible assets

Goodwill represents the excess of cost over fair value of assets of businesses acquired. The Company uses the purchase method of accounting for business combinations and recognizes intangible assets acquired in a purchase method business combination apart from goodwill if certain criteria are met. The value of goodwill and other intangibles acquired as of the Acquisition Date was recorded at fair value, as determined by independent appraisal. Goodwill and intangible assets not subject to amortization are tested annually for impairment and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. The impairment test involves a two-step process. The first step involves comparing the fair value of the reporting units to their carrying values, including goodwill and indefinite lived intangible assets (trademark). If the carrying value of the reporting unit exceeds its estimated fair value, the second step of the test is performed by comparing the carrying value of the goodwill and trademarks in the reporting unit to their implied fair value. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

Intangible assets with finite lives are amortized over their respective useful lives and reviewed for impairment if events and circumstances indicate that the assets might be impaired. The estimated useful lives for separable intangible assets are as follows:

<u>Intangible Asset</u>	<u>Estimated Useful Life</u>
Trademarks	Indefinite
Favorable lease terms	Lease term
Customer relationships	3 - 10 years
Franchise & development agreements	15 - 18 years

Trademarks consists primarily of the acquired brand name Corner Bakery Cafe and the acquired rights to the Il Fornaio brand name in the United States of America, both of which have been determined to have an indefinite life and are therefore not currently being amortized.

No adjustments for impairment of goodwill or intangible assets were recorded in fiscal years 2011 or 2010.

Note 1 – Operations and significant accounting policies (continued)

Debt issuance costs

The costs related to the issuance of debt are capitalized and amortized to interest expense using the effective interest method over the term of the related debt. As of the Acquisition Date, debt issuance costs of \$312,000 remained unamortized by II Fornaio (America) Corporation related to debt outstanding during the Predecessor period and these costs were written off as the related debt was retired. As of the Acquisition Date, debt issuances costs of \$8,876,000 were recorded related to expenses incurred by the Successor and its subsidiaries related to the 2011 Revolving Credit and Term Loan Agreement and the 2011 Mezzanine Debt (Both used to finance the Acquisition - See Note 2). Amortization expense associated with debt issuance costs was \$601,000, \$86,000 and \$179,000 during the periods from June 10, 2011 (Acquisition Date) to December 25, 2011, December 27, 2010 to June 9, 2011 and the year ended December 26, 2010, respectively and accumulated amortization of debt issuance costs of \$601,000 and \$663,000 were recorded at December 25, 2011 and December 26, 2010, respectively.

Pre-opening expenses

Pre-opening costs are expensed as incurred. Pre-opening costs consist of location setup, rent, employee training and promotion associated with the opening of new locations.

Advertising costs

Advertising costs are expensed as incurred. Advertising expense was approximately \$4.6 million, \$3.3 million and \$7.3 million during the periods from June 10, 2011 (Acquisition Date) to December 25, 2011, December 27, 2010 to June 9, 2011 and the year ended December 26, 2010, respectively.

Income taxes

Income taxes are accounted for using the liability method, under which deferred taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities using enacted tax rates in effect for the years during which the temporary differences are expected to reverse. The tax basis of assets and liabilities are based on amounts that meet the recognition threshold and are measured pursuant to the measurement requirement in current standards. A valuation allowance is established to reduce tax assets to the amount that, based on available evidence, is more likely than not to be realized.

The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to its financial results. In the event the Company has such an assessment from a taxing authority, it is its accounting policy to recognize any interest and penalties as a component of income tax expense.

Note 1 – Operations and significant accounting policies (continued)

Stock-based compensation

Stock-based compensation in the amount of \$0, \$23,000 and \$164,000 relating to common stock options was recorded during the periods from June 10, 2011 (Acquisition Date) to December 25, 2011, December 27, 2010 to June 9, 2011 and the year ended December 26, 2010, respectively. Additional stock-based compensation expense of \$0, \$250,000 and \$534,000 relating to a special accrual on preferred stock options (discussed in Note 6) was recorded during the periods from June 10, 2011 (Acquisition Date) to December 25, 2011, December 27, 2010 to June 9, 2011 and the year ended December 26, 2010, respectively. There were no stock options granted during the period from June 10, 2011 (Acquisition Date) to December 27, 2011 or the period from December 27, 2010 to June 9, 2011. The fair value of common stock options granted and modified during the year ended December 26, 2010, was estimated on the date of grant using the Black-Scholes-Merton option pricing model based on the weighted average assumptions in the table below:

	<u>2010</u>
Expected term (years)	3
Risk-free interest rate	1.05%
Weighted-average volatility	63.00%
Weighted-average grant-date fair value per share	\$4.90

The expected term of the options was based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate was based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at the grant date. Volatility for common options was based on the historical volatility of several public entities that are similar to the Subsidiary Entities as Il Fornaio (America) Corporation did not have sufficient historical transactions of its own shares on which to base expected volatility.

Revenue recognition

Revenue from restaurant sales is recognized when food and beverage products are sold. Revenue from bakery sales is recognized when the bakery products are shipped. Sales returns have been insignificant to date.

Various governmental authorities directly impose taxes on sales including sales, use, value added and some excise taxes. The Company excludes such taxes from net sales.

Note 1 – Operations and significant accounting policies (continued)

Franchise fees and royalties

The franchise agreements for Corner Bakery Cafes provide for an initial fee and continuing royalty payments based upon net sales. Royalty revenue is recognized on the accrual basis and initial fees are not recognized until the franchisee's cafe is opened. Fees for granting exclusive development rights to specific geographic areas are recognized when the right has been granted and cash received is non-refundable. CBC Restaurant Corp. has entered into development agreements pursuant to which 174 additional cafes may be opened in the future. CBC Restaurant Corp. provides site selection review and advice on construction cost and administration, training and other administrative support to franchisees related to each anticipated future opening. Initial franchise and development fees of \$680,000, \$35,000 and \$225,000 were recognized during the periods from June 10, 2011 (Acquisition Date) to December 25, 2011, December 27, 2010 to June 9, 2011 and the year ended December 26, 2010, respectively.

Deferred revenue

The Subsidiary Entities offer gift certificates for sale in the form of gift cards. Revenue from gift cards issued is deferred until the gift cards are redeemed at the Subsidiary Entities' restaurants.

Comprehensive income (loss)

Comprehensive income (loss) is an additional income (loss) measure reported in the consolidated financial statements, which adjusts net loss for certain items reflected as direct charges to equity. Comprehensive income (loss) during the Predecessor period included the effective portion of the unrealized gain or loss on the derivative instruments (an interest rate swap) that were designated and qualified as a cash flow hedge prior to the Acquisition Date.

Fair value of financial instruments

The carrying amounts of cash equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities, and the Company's subsidiary's revolving credit facility are reasonable estimates of the fair values of these financial instruments due to the relatively short-term nature of these instruments. Long-term debt, which is based on borrowing rates currently available to the Company for loans with similar terms and maturities, is reported at its carrying value, which the Company believes approximates fair value.

Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Company uses a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. Instruments with readily available actively quoted prices, or for which fair value can be measured from actively quoted prices in an orderly market, will generally have a higher degree of market price transparency and a lesser degree of judgment used in measuring fair value.

Note 1 – Operations and significant accounting policies (continued)

Fair value of financial instruments (continued)

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities as of the measurement date. The types of instruments which would generally be included in Level 1 include listed equity securities.

Level 2 – Inputs are observable for the asset or liability, either directly or indirectly, as of the measurement date, but are other than quoted prices in active markets as in Level 1. The types of instruments which would generally be included in this category include unlisted derivative financial instruments and fixed income investments.

Level 3 – Inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant judgment or estimation by the reporting entity. The types of instruments which would generally be included in this category include privately held investments, partnership interests and similar interests, and beneficial interests in trusts held by others.

Financial instruments subject to fair value measurement include money market funds in the amounts of \$6,735,458 and \$22,895,304 as of December 25, 2011 and December 26, 2010, respectively, which are classified as cash equivalents on the accompanying consolidated balance sheets. These instruments are valued using Level 1 inputs.

Derivatives

Prior to its expiration in 2010, II Fornaio (America) Corporation accounted for its interest rate swap agreement based on guidance that requires recognition of derivative instruments as either assets or liabilities in the accompanying consolidated balance sheets. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether the instrument has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Any derivatives that do not qualify as a hedge are adjusted to fair value through income.

For the derivative instrument that was designated and qualified as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument for the year ended December 26, 2010 is reported as a component of other comprehensive income.

Note 1 – Operations and significant accounting policies (continued)

New accounting pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance that amends the presentation requirements for comprehensive income (loss) in financial statements. The guidance requires entities to report components of comprehensive income either as part of a single continuous statement of comprehensive income that would combine the components of net income (loss) and other comprehensive income (loss), or in a separate, but consecutive, statement following the statement of operations. The guidance is effective for interim and annual periods beginning after December 15, 2012 and is to be applied retrospectively. The Company does not expect the adoption of these provisions to have a significant effect on its consolidated financial statements.

In May 2011, the FASB issued authoritative guidance that amends the existing requirements for fair value measurement and disclosure. The guidance expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy and requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for measurement of the fair value of financial assets and liabilities as well as instruments classified in owners’ equity. The guidance is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of these provisions to have a significant effect on its consolidated financial statements.

Subsequent events

Subsequent events have been evaluated through April 20, 2012, which is the date the consolidated financial statements were issued.

Note 2 – Acquisition

IFCB Holding Corporation and its subsidiary CB Merger Corporation were formed on April 19, 2011. Effective June 10, 2011 (Acquisition Date), pursuant to an Agreement and Plan of Merger (“Agreement”), CB Merger Corporation was merged with Il Fornaio (America) Corporation (“ILFO”) with ILFO remaining as the surviving entity. Subsequent to the Acquisition Date, IFCB owned 100% of ILFO.

Note 2 – Acquisition (continued)

On the Acquisition Date, ILFO was merged with CB Merger Corporation for a net purchase price of approximately \$296.4 million, net of cash acquired. To complete the transaction, II Fornaio (America) Corporation entered into a Credit Agreement (the “2011 Revolving Credit and Term Loan Agreement”) and a Senior Subordinated Credit Agreement (the “2011 Mezzanine Debt”). Pursuant to the terms of the 2011 Revolving Credit and Term Loan Agreement, credit in the form of (a) term loans in an aggregate principal amount equal to \$130,000,000 and (b) revolving loans from time to time prior to the Revolving Credit Maturity Date, in an aggregate principal amount at any time outstanding not in excess of \$15,000,000, was extended. Pursuant to the terms of the 2011 Mezzanine Debt, credit in the form of term loans in an aggregate principal amount equal to \$50,000,000 was extended.

The transaction was accounted for as a business acquisition under the purchase method of accounting. The net purchase price for the new majority ownership was determined as follows (in thousands):

Cash consideration	\$ 301,782
Less: ILFO cash acquired	<u>(5,403)</u>
Net purchase price	<u>\$ 296,379</u>

The following table summarizes the allocation of the purchase price for the new ownership to the estimated fair values of assets acquired and liabilities assumed at the date of the transaction (in thousands):

Restricted cash	\$ 2,054
Accounts receivable	5,438
Inventories	4,792
Prepaid expenses	3,096
Property and equipment	118,428
Other assets	791
Deferred tax assets	4,901
Intangible assets	138,005
Goodwill (non-deductible for tax purposes)	<u>133,070</u>
Total assets acquired	<u>410,575</u>
Accounts payable	14,244
Other liabilities assumed	36,362
Deferred franchise fees	1,750
Contingent consideration to previous owners	9,234
Deferred income taxes	<u>52,606</u>
Total liabilities assumed	<u>114,196</u>
Net purchase price	<u>\$ 296,379</u>

Note 2 – Acquisition (continued)

Of the \$138,005,000 of acquired intangible assets, \$110,400,000 was assigned to trademarks, \$16,305,000 was assigned to favorable leasehold interests, \$6,100,000 was assigned to customer relationships and \$5,200,000 was assigned to initial franchise and territorial development agreements with existing CBC Restaurant Corp franchisees.

Goodwill represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce and future expansion opportunities, particularly with respect to CBC Restaurant Corp.

The Agreement includes a provision that requires the Company to identify tax benefit items attributable to the Predecessor period that existed as of the Acquisition Date, and to the extent these tax benefit items result in a reduction in future cash taxes paid during the seven-year period beginning with the Acquisition Date, the amount of the reduction in cash taxes is payable to former shareholders of the Predecessor at the time such benefit is realized. Liabilities assumed include the estimated amount payable related to the tax benefit items which has been estimated at approximately \$9.2 million, net of discount, but will ultimately depend on future corporate tax rates, actual taxable income and future tax regulations and laws. The \$9.2 million was estimated based on management's best estimate of the amount of future taxable income expected to be generated over the succeeding seven year period and the related amount of net operating losses existing at the Acquisition Date and expected to be realized over such period. The Company's actual liability may be materially different than recorded.

Other liabilities assumed include unfavorable leasehold interests of \$10,390,000 and a reserve in the amount of \$300,000 for a potential settlement related to a disputed lease.

Prior to the Acquisition Date, the Subsidiary Entities were a party to various legal proceedings arising in the ordinary course of its business. As of the Acquisition Date, the Company did not expect any of these proceedings to have a material adverse effect on the Company's business, financial condition or results of operations.

Pursuant to the transaction, the Company owns all common shares of ILFO and all preferred shares of ILFO were canceled. The new IFCB capital structure is comprised of 133,841 common shares and warrants to purchase an additional 4,500 shares for an exercise price of \$0.01.

Note 3 – Property and equipment

Property and equipment consisted of the following at December 25, 2011 and December 26, 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Leasehold improvements	\$ 86,485	\$ 133,859
Machinery and equipment	28,370	61,553
Furniture and fixtures	<u>10,677</u>	<u>22,288</u>
Total	125,532	217,700
Less accumulated depreciation and amortization	(11,262)	(144,535)
Constmction in progress	<u>548</u>	<u>19</u>
Property and equipment, net	<u>\$ 114,818</u>	<u>\$ 73,184</u>

Fixed assets with a net book value of \$135,000, \$11,000 and \$2,516,000 were disposed of during the periods from June 10, 2011 (Acquisition Date) to December 25, 2011, December 27, 2010 to June 9, 2011 and the year ended December 26, 2010, respectively. During the year ended December 26, 2010, ILFO disposed of fixed assets with a net book value of \$585,000 related to the closure of a CBC cafe in January 2010 (consisting primarily of leasehold improvements), \$1,560,000 related to the sales of 2 CBC cafes to franchisees of CBC Restaurant Corp. (consisting primarily of leasehold improvements), and \$371,000 related to assets disposed of in the normal course of business.

Note 4 – intangible assets

The following table details the identifiable intangible assets that are subject to amortization as of December 25, 2011(in thousands):

	<u>Life (Years)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net carrying Value</u>
Favorable leasehold interests	2 - 12	\$ 16,305	\$ (1,348)	\$ 14,957
Customer relationships	3 - 10	6,100	(400)	5,700
Development agreements	18	4,600	(37)	4,563
Franchise agreements	15	<u>600</u>	<u>(20)</u>	<u>580</u>
		<u>\$ 27,605</u>	<u>\$ 1,805</u>	<u>\$ 25,800</u>

There were no identifiable intangible assets that were subject to amortization as of December 26, 2010.

Note 4 – intangible assets (continued)

Estimated amortization expense, assuming current intangible balances and no new acquisitions or impairments, for each of the years ending December is as follows (in thousands):

2012	\$ 3,260
2013	3,243
2014	3,183
2015	3,085
2016	2,696
Thereafter	<u>10,333</u>
	<u>\$ 25,800</u>

The following table details the weighted-average period of amortization in total and by major class for each of the identifiable intangible asset classes as of December 31, 2008:

	Life (Years)	Weighted Average Period In Total
Favorable leasehold interests	2 – 12	8.20
Customer relationships	5 – 10	8.44
Development agreements	18	18
Franchise agreements	15	15

The \$110,400,000 assigned to trademarks is not currently being amortized as such assets were determined to have indefinite lives.

Note 5 – Accrued expenses

Accrued expenses consisted of the following at December 25, 2011 and December 26, 2010 (in thousands):

	2011	2010
Accrued payroll and related benefits	\$ 13,954	\$ 15,251
Gift cards and certificates	5,348	4,874
Accrued rent	1,264	1,448
Accrued sales taxes	3,289	2,907
Accrued interest	2,993	530
Accrued construction costs	1,344	1,406
Other	<u>3,817</u>	<u>2,542</u>
Total accrued expenses	<u>\$ 32,009</u>	<u>\$ 28,958</u>

Note 6 – Revolving credit facility and long-term debt

Predecessor

On March 29, 2007, ILFO completed a new financing that in whole superseded its previous credit facility in the form of a \$115 million Term Loan and a \$30 million Revolving Credit and Term Loan Agreement which included an \$8 million letter of credit facility (the “2007 Revolving Credit and Term Loan Agreement”). The proceeds from this financing were used primarily to pay off the then outstanding term loan and to re-purchase stock from certain shareholders and option holders of ILFO. The 2007 Revolving Credit and Term Loan Agreement was secured by substantially all of the assets of ILFO with interest payable at the bank’s Eurodollar rate plus applicable margin. A commitment fee (0.50% per annum) on the unused portion of the Revolving Credit facility was payable quarterly. The 2007 Revolving Credit and Term Loan Agreement was to expire on March 29, 2012 and March 29, 2013, respectively, with all unpaid principal and interest due on those dates. As of December 26, 2010, \$99.5 million was outstanding under the Term Loan facilities and no amounts were outstanding under the revolving credit facility. Additionally, letters of credit had been issued for \$2.7 million as of December 26, 2010. As of December 26, 2010, \$27,300,000 was available under the Revolving Credit facility and \$5,269,000 was available under the letter of credit facilities. All outstanding balances under the 2007 Revolving Credit and Term Loan Agreement were paid in full at the Acquisition Date.

On February 2, 2006, ILFO entered into a Note Purchase Agreement under which \$24.9 million of senior subordinated notes (the “2006 Mezzanine Debt”) were issued. The 2006 Mezzanine Debt was subordinated to the 2007 Revolving Credit and Term Loan Facility. Interest on the 2006 Mezzanine Debt was payable quarterly at 12% per annum, including 3% of payment in kind interest and was to expire on September 29, 2013. As of December 26, 2010, approximately \$28.8 million was outstanding on the 2006 Mezzanine Debt including \$3.1 million of in-kind interest. All outstanding balances related to the 2006 Mezzanine Debt were paid in full at the Acquisition Date.

Note 6 – Revolving credit facility and long-term debt (continued)

Successor

On June 10, 2011, II Fornaio (America) Corporation completed a financing in the form of a \$130 million Term Loan and a \$15 million Revolving Credit Facility which included a \$12.5 million letter of credit facility (the “2011 Revolving Credit and Term Loan Agreement”). The proceeds from this financing were used primarily to acquire ILFO and to pay off ILFO’s then outstanding credit facility. The 2011 Revolving Credit and Term Loan Agreement is secured by substantially all of the assets of II Fornaio (America) Corporation and subsidiaries with interest payable at the bank’s Eurodollar rate plus applicable margin, currently at 5.25%. A fee (0.75% per annum) on the unused portion of the Revolving Credit Facility is payable quarterly. The 2011 Revolving Credit and Term Loan are to expire on June 10, 2016 and June 10, 2017, respectively, with all unpaid principal and interest due on those dates. As of December 25, 2011, \$129,350,000 was outstanding under the term loan facility and no amounts were outstanding under the revolving credit facility. Additionally, letters of credit had been issued for \$3.2 million as of December 25, 2011. As of December 25, 2011, \$11,800,000 was available under the revolving credit facility.

On June 10, 2011, the II Fornaio (America) Corporation entered into a Senior Subordinated Credit Agreement under which \$50.0 million of senior subordinated notes (the “2011 Mezzanine Debt”) were issued. The 2011 Mezzanine Debt was used to acquire ILFO and to pay off ILFO’s then outstanding credit facility, and is subordinated to the 2011 Revolving Credit and Term Loan Facility. Interest on the 2011 Mezzanine Debt is payable quarterly at 13% per annum, including 2% of payment in kind interest and is to expire on December 10, 2017. As of December 25, 2011, \$50,256,000 was outstanding on the 2011 Mezzanine Debt including \$256,000 of in-kind interest.

Long-term debt consisted of the following at December 25, 2011 and December 26, 2010 (in thousands):

	2011 <u>(Successor)</u>	2010 <u>(Predecessor)</u>
Line of credit	\$ -	\$ -
Term loan	129,350	99,493
Mezzanine debt	<u>50,256</u>	<u>28,839</u>
	179,606	128,332
Less current maturities	<u>(1,300)</u>	<u>(1,150)</u>
	<u>\$ 178,306</u>	<u>\$ 127,182</u>

Note 6 – Revolving credit facility and long-term debt (continued)

The future minimum principal payments are as follows (in thousands):

<u>Years Ending December</u>	<u>Term Loan</u>	<u>Mezzanine Debt</u>	<u>Total</u>
2012	\$ 1,300	\$ -	\$ 1,300
2013	1,300	-	1,300
2014	1,300	-	1,300
2015	1,300	-	1,300
2016	1,300	-	1,300
Thereafter	<u>122,850</u>	<u>50,256</u>	<u>173,106</u>
Total	<u>\$ 129,350</u>	<u>\$ 50,256</u>	<u>\$ 179,606</u>

The 2011 Revolving Credit and Term Loan Agreement and the 2011 Mezzanine Debt Agreement contain various restrictive covenants including ratios (as defined in the agreements) relating to leverage, cash flow, EBITDA (earnings before interest, taxes, depreciation and amortization) to total interest expense, additional debt incurrence, capital expenditures, asset sales, operating leases, as well as other customary covenants, representations and warranties. The Company was in compliance with these covenants as defined in the 2011 Revolving Credit and Term Loan agreement and the 2011 Mezzanine Debt Agreement as of December 25, 2011. The Revolving Credit and Term Loan commitments are collateralized by substantially all of the Company's assets.

Note 7 – Other liabilities

Other liabilities consisted of the following at December 25, 2011 and December 26, 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Unfavorable lease liabilities	\$ 9,652	\$ -
Payable to former shareholders of ILFO (See Note 2)	9,234	-
Deferred franchise fees	1,685	1,670
Other	<u>508</u>	<u>465</u>
Total other liabilities	<u>\$ 21,079</u>	<u>\$ 2,135</u>

Unfavorable lease liabilities of \$10,390,000 were recorded in Other Liabilities as of the Acquisition Date with amortization of \$738,000 recorded during the period from June 10, 2011 (Acquisition Date) to December 25, 2011.

Note 7 – Other liabilities (continued)

Estimated amortization expense of the unfavorable lease liabilities for each of the years ending December is as follows (in thousands):

2012	\$ 1,265
2013	1,265
2014	1,168
2015	1,115
2016	1,083
Thereafter	<u>3,756</u>
	<u>\$ 9,652</u>

Note 8 – Stockholders' equity

Common stock

Prior to the Acquisition Date, ILFO was authorized to issue up to 10,000,000 aggregate number of shares, divided into three classes consisting of 5,000,000 shares of preferred stock, par value \$0.001 per share ("Preferred Stock"), 4,000,000 shares of Class A common stock, par value \$0.001 per share ("Class A Common Stock"), and 1,000,000 shares of Class B common stock, par value \$0.001 per share ("Class B Common Stock"). There were 378,484 shares of Class A Common Stock and no shares of Class B Common Stock issued and outstanding as of December 26, 2010. All outstanding shares of ILFO were cancelled as of the Acquisition Date (Predecessor). As of December 25, 2011, ILFO was authorized to issue 1,000 shares. All outstanding ILFO shares are owned by IFCB (Successor).

As of the Acquisition Date, the Company is authorized to issue up to 200,000 shares of common stock, par value \$0.001 per share ("Common Stock"). There were 133,841 shares of Common Stock issued and outstanding as of December 25, 2011. Currently, IFCB owns all outstanding shares of ILFO.

Preferred stock

Prior to the Acquisition Date, ILFO had fixed the designations and preferences and relative participating, optional and other special rights, qualifications, limitations and restrictions of three series of Preferred Stock all with a par value of \$0.001 per share, consisting of 2,000,000 shares to be designated Series A 13.0% Cumulative Compounding Preferred Stock ("Series A Preferred"); 1,500,000 shares to be designated Series B 13.5% Cumulative Compounding Preferred Stock ("Series B Preferred"); and 1,000,000 shares to be designated Series C 35.0% Cumulative Compounding Preferred Stock ("Series C Preferred"). The holders of Series A, Series B and Series C Preferred were not entitled or permitted to vote on any matter required or permitted to be voted upon by the stockholders of ILFO, except as otherwise required by Delaware law or the Preferred Stock Certificate of Designation. All preferred stock was cancelled at the Acquisition Date.

Note 8 – Stockholders' equity (continued)

Series A and Series C Preferred

ILFO did not have any Series A or Series C Preferred Stock issued or outstanding during 2010 and 2011.

Series B Preferred

Prior to the Acquisition Date, the ILFO Series B Preferred ranked junior to any outstanding Series A Preferred and senior to all classes of common stock and Series C Preferred Stock and had a liquidation preference of \$12 per share, plus accmed and unpaid dividends. Each holder of Series B Preferred was entitled to receive cash dividends on each share of Series B Preferred at a rate per annum equal to 13.5% of the liquidation preference. All dividends were cumulative, whether or not earned or declared, accmed on a daily basis from the date of issuance of Series B Preferred and compounded annually on July 31. Unpaid dividends were \$38,313,000 as of December 26, 2010, and dividends in the amount of \$40,387,000 were paid as of the Acquisition Date. All Series B preferred stock was cancelled at the Acquisition Date.

Warrants

Prior to the Acquisition Date and as of December 26, 2010, the Predecessor had outstanding warrants to purchase 4,874 shares of Class A Common Stock outstanding (the "ILFO Warrants"). The ILFO Warrants were exercisable at \$0.01 per share, were to expire on July 17, 2011, and were subject to certain anti-dilution adjustments. The holders of the ILFO Warrants were able to require ILFO to repurchase all of the ILFO Warrants or the stock issued pursuant to the exercise of the ILFO Warrants at a price equal to the fair value of the ILFO's stock on the date of repurchase. As a result of the put feature, the estimated fair value of the remaining ILFO Warrants was recorded as a liability, included in other liabilities on the accompanying consolidated balance sheet as of December 26, 2010 in the amount of \$103,366. Increases in the fair value of the ILFO Warrants were previously recorded as additional interest expense and as an increase in the liability. All of the ILFO Warrants were exercised on the Acquisition Date. There are currently no ILFO Warrants outstanding.

The Company issued warrants to purchase 4,500 shares of Common Stock on the Acquisition Date to certain shareholders (the "Warrants"). The Warrants are exercisable at \$0.01 per share and expire on July 10, 2026, and are subject to certain anti-dilution adjustments. All of the warrants are currently exercisable and remained outstanding at December 25, 2011. The issuance of the Warrants was recorded as a dividend of \$4.5 million which was determined based on the estimated fair value of the warrants at the Acquisition Date.

Note 8 – Stockholders' equity (continued)

Stock option plans

In July 2001, the Predecessor Board of Directors (the "Board") adopted and approved the II Fornaio (America) Corporation 2001 Stock-Based Incentive Compensation Plan (the "2001 Plan"). The 2001 Plan was superseded by the adoption of the 2006 Stock-Based Incentive Compensation Plan (the "2006 Plan") under which ILFO could grant incentive stock options to employees and nonqualified stock options to employees, consultants and nonemployee directors. The total number of shares authorized and available for awards under the 2006 Plan as of December 26, 2010 was as follows:

	Number of Shares <u>Authorized</u>	Shares Available <u>for Awards</u>
Series A Preferred	185,000	185,000
Series B Preferred	265,000	48,018
Common Stock	200,000	125,948

The 2001 Plan and 2006 Plan were administered by the Board. The exercise price per share for common stock, Series A Preferred or Series B Preferred options was determined by the Board, but the exercise price could be no less than 85% of the fair market value of a share of the applicable underlying stock on the date of grant, or in the case of any incentive stock option, the exercise price per share could not be less than 100% of the fair market value of a share of the applicable underlying stock on the date of grant. The fair market value of a share of stock was determined by the Compensation Committee of the Board. Incentive stock options generally vested ratably over three to four years and expired no more than ten years from the date of grant. ILFO recognized compensation costs for these awards on a straight-line basis over the requisite service period. Nonqualified Series A and Series B Preferred options issued during 2001 were fully vested upon issuance and were to expire within seven years from the date of grant. Such nonqualified options allowed ILFO to repurchase any vested but unexercised options if the option holder's employment terminated for any reason at a repurchase price as defined in the option agreement.

In addition, a right to payment from ILFO accrued on the outstanding Series A and Series B Preferred options at a rate equal to the dividend rate per share, as set forth for the applicable series of preferred stock, multiplied by the liquidation preference per share (\$12) less the option price per share (the "Special Accrual"). The Special Accrual was cumulative, accrued on a daily basis from the date of grant and compounded annually on July 31, through the date the option was exercised, at which time, ILFO had the option to pay the Special Accrual in the form of cash or a reduction in the option exercise price. For the period from December 27, 2010 to June 9, 2011 and for the year ended December 26, 2010, ILFO recorded a Special Accrual of approximately \$250,000 and \$534,000, respectively, as stock compensation expense and an addition to additional paid-in-capital.

Note 8 – Stockholders' equity (continued)

Stock option plans (continued)

During fiscal 2008, as the Series B Preferred options were due to expire, 216,982 options were modified to extend the expiration date by 10 years to July 17, 2018. The modified options were exercisable only upon a liquidity event and retained all of their other features including the continuation of the Special Accmal.

In addition to the Predecessor stock-based compensation expense discussed above in connection with the Series B Preferred options, \$23,000 and \$164,000 of stock compensation expense was recognized in the period December 27, 2010 to June 9, 2011 and the year ended December 26, 2010, respectively, related to common stock options granted since fiscal 2006. As all vested options were exercised as of the Acquisition Date, there was no unrecognized compensation cost related to unvested awards granted under ILFO's stock-based compensation plan. There were no options granted during the period from December 27, 2010 to June 9, 2011 or for the period from June 10, 2011 to December 25, 2011.

During fiscal year 2010, common stock options were modified for 12 of ILFO's employees. Specifically, the modifications reduced the exercise price for certain stock options from \$54.69 to \$1.65 per share. The modifications also eliminated performance related conditions for certain common stock options. The achievement of such performance conditions was considered remote, and as such, no compensation expense had previously been recorded for such awards. Total incremental compensation cost resulting from the modifications was \$145,000 for the year ended December 26, 2010.

As of the Acquisition Date, the accumulated Special Accmal in the amount of \$4,736,000 was paid to participants in the plan. Payments to selling shareholders related to common stock options in the amount of \$22,691,000 and \$219,200 were made at the Acquisition Date and during the period from June 10, 2011 to December 25, 2011, respectively. Amounts paid to selling shareholders related to common stock options were reflective of the intrinsic value of such options at the Acquisition Date.

Note 8 – Stockholders' equity (continued)

Stock option plans (continued)

The following tables reflect the activity under ILFO's stock option plans during the period from December 27, 2010 to June 9, 2011 and the year ended December 26, 2010:

	Common Shares	Weighted-Average Exercise Price
Balance, December 27, 2009	72,403	\$ 5.44
Granted	7,500	\$ 1.65
Exercised	(1,158)	\$ 0.50
Cancelled	(4,243)	\$ (0.50)
Balance, December 26, 2010	<u>74,502</u>	<u>\$ 0.79</u>
Granted	-	\$ -
Exercised	(74,502)	\$ 0.79
Cancelled	-	\$ -
Balance, June 9, 2011 (Acquisition Date)	<u>-</u>	<u>\$ -</u>
	Preferred Shares	Weighted-Average Exercise Price
Balance, December 27, 2009	216,982	\$ 5.78
Granted	-	\$ -
Exercised	-	\$ -
Cancelled	-	\$ -
Balance, December 26, 2010	<u>216,982</u>	<u>\$ 5.78</u>
Granted	-	\$ -
Exercised	(216,982)	\$ (5.78)
Cancelled	-	\$ -
Balance, June 9, 2011 (Acquisition Date)	<u>-</u>	<u>\$ -</u>

The 2006 Plan was cancelled as of the Acquisition Date. As of December 25, 2011, the Company (Successor) had no stock option or other equity incentive plans in place.

Note 9 – Income taxes

The provision (benefit) for income taxes consists of the following for the periods from June 10, 2011 to December 25, 2011 (Successor), December 27, 2010 to June 9, 2011 (Predecessor) and the year ended December 26, 2010 (Predecessor) (in thousands):

	June 10, 2011 to December 25, 2011 (Successor)	December 27, 2010 to June 9, 2011 (Predecessor)	Year ended December 26, 2010 (Predecessor)
Current provision (benefit):			
Federal	\$ -	\$ (615)	\$ (1,325)
State	<u>433</u>	<u>112</u>	<u>820</u>
Total current provision (benefit)	433	(503)	(505)
Deferred provision (benefit)	<u>(1,711)</u>	<u>(92)</u>	<u>3,111</u>
Income tax provision (benefit)	<u><u>\$ (1,278)</u></u>	<u><u>\$ (595)</u></u>	<u><u>\$ 2,606</u></u>

The effective tax rate differs from the federal statutory rate due primarily to state taxes, the effects of permanent differences not deductible for tax purposes and tax credits.

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) tax credit carryforwards. Significant components of the Company's net deferred tax balances as of December 25, 2011 and December 26, 2010 were as follows (in thousands):

	2011	2010
Deferred tax assets:		
Tax credit carry forwards	\$ 7,253	\$ 4,700
Compensation related	3,207	6,780
Fixed assets	-	3,770
Deferred rent liability	173	1,614
Deferred revenue	1,857	1,575
State taxes	2,762	77
Net operating losses	8,523	-
Other	<u>360</u>	<u>388</u>
Total deferred tax assets	<u>24,135</u>	<u>18,904</u>
Deferred tax liabilities:		
Intangibles amortization	(46,837)	(3,120)
Fixed assets	(19,832)	-
Favorable/unfavorable leases	(2,185)	-
State taxes	(120)	(926)
Prepaid expenses	<u>(457)</u>	<u>(264)</u>
Total deferred tax liabilities	<u>(69,431)</u>	<u>(4,310)</u>
Valuation allowance	<u>(697)</u>	<u>(654)</u>
Net deferred tax assets (liabilities)	<u><u>\$ (45,993)</u></u>	<u><u>\$ 13,940</u></u>

Note 9 – Income taxes (continued)

As of December 25, 2011 the Company had net operating loss carryforwards for federal and state income purposes of approximately \$19,945,000 and \$24,261,000, respectively. The federal net operating loss carryforwards expire in 2030 and 2031. The state net operating loss carryforwards expire in 2015 through 2031. The Company has federal alternative minimum tax credits carryforwards of approximately \$682,000 which have an indefinite carryforward period and general business credit carryforwards of approximately \$5,873,000 which begin to expire in 2018. The Company also has state credits of approximately \$697,000, which have an indefinite carryforward period. The state credits have been reduced by a full valuation allowance of \$697,000 as of December 25, 2011 and \$654,000 as of December 26, 2010.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority. As of December 25, 2011, the Company had unrecognized tax benefits related to prior years. The Company expects a decrease in gross unrecognized benefits in the next 12 months due to the lapse of the applicable statutes of limitations. Interest and penalties associated with unrecognized tax benefits have not been material.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Pursuant to the statute of limitations, the Company is open to audit by the Internal Revenue Service ("IRS") for its 1999 to 2006 and 2008 to 2011 tax years and various state taxing authorities for its 2007 to 2011 tax years. Tax years 1999 to 2006 for federal are open due to non-utilized general business credits and tax years 2005 and 2006 are also open for net operating loss carrybacks. The Company currently does not have any examinations in progress with the IRS or states.

Note 10 – 401(k) plan

In February 2001, ILFO adopted the Il Fornaio 401(k) Plan (the “401(k) Plan”) covering all employees who have met certain eligibility requirements. Under the 401(k) Plan, employees may elect to contribute up to 15% of their eligible compensation to the 401(k) Plan, subject to certain limitations. In addition, ILFO may allow employees to make additional contributions of any Subsidiary Entities’ paid cash bonuses made for such employees during the plan year, subject to certain limitations. The Subsidiary Entities may make matching contributions during the year equal to a discretionary percentage, as determined by ILFO, of the participant’s salary reductions. Employer contributions vest at the rate of 20% per year with full vesting after 5 years of service with the Subsidiary Entities. ILFO did not make any contributions to the 401(k) Plan for the periods from June 10, 2011 to December 25, 2011, December 27, 2010 to June 9, 2011 or the year ended December 26, 2010.

Note 11 – Commitments and contingencies

Operating leases

The Subsidiary Entities lease all restaurant, cafe, wholesale bakery and office space under operating leases, which terminate at various dates between 2012 and 2023. Certain leases require increased rental payments, generally related to changes in the Consumer Price Index and increases in property taxes, and certain leases also provide for additional rent based on a percentage of sales. Total rent expense for all operating leases were as follows (in thousands):

	June 10, 2011 to December 25, 2011 (Successor)	December 27, 2010 to June 9, 2011 (Predecessor)	Year ended December 26, 2010 (Predecessor)
Minimum rentals	\$ 11,489	\$ 9,011	\$ 20,526
Contingent rentals	<u>1,027</u>	<u>818</u>	<u>1,567</u>
Total rental expense	<u>\$ 12,516</u>	<u>\$ 9,829</u>	<u>\$ 22,093</u>

At December 25, 2011, future minimum lease payments under long-term operating leases were as follows for the year ending December (in thousands):

2012	\$ 20,911
2013	18,333
2014	15,145
2015	13,185
2016	10,366
Thereafter	<u>16,342</u>
Total	<u>\$ 94,282</u>

Note 11 – Commitments and contingencies (continued)

Workers' compensation accrual

The Subsidiary Entities carry a \$150,000 deductible limit per occurrence for workers' compensation claims. An actuarial estimate of uninsured losses has been used to record the estimated liability. The reserve for estimated claim costs, net of payments made, amounted to \$2,538,000 and \$2,593,000 at December 25, 2011 and December 26, 2010, respectively, and is included in accrued liabilities on the accompanying consolidated balance sheets.

Legal contingencies

The Subsidiary Entities are party to various legal proceedings arising in the ordinary course of its business. Although no assurance can be given, the Company does not currently expect any of these proceedings to have a material adverse effect on the Company's business, financial condition or results of operations.

Note 12 – Related party balances and transactions

ILFO was party to a management agreement with Bmckmann, Rosser, Sherrill & Co. II, LP ("BRS"), majority owner of ILFO prior to the Acquisition Date, that required ILFO to pay an annual management fee to BRS equal to 1.5% of earnings before interest, taxes, depreciation and amortization, ("EBITDA") as adjusted. ILFO recorded management fee expense to BRS of \$1,321,000 and \$540,000 for the period December 27, 2010 to June 9, 2011 and the year ended December 26, 2010, respectively. Prepaid expenses and other assets included management fees to BRS of \$269,000 at December 26, 2010, which was a prepayment for fees due in 2011. The management agreement with BRS was terminated as of the Acquisition Date.

The Company is now party to a management advisory and consulting services agreement with an affiliate of its majority shareholder that requires an annual payment of \$750,000 paid in equal quarterly installments and will increase by 3% each January 1. The Company recorded management fee expense of \$418,000 (representing a pro-rated annual fee) and paid a one-time transaction advisory fee related to the merger of \$3,000,000 to an affiliate of its majority shareholder during the period June 10, 2011 (Acquisition Date) to December 25, 2011. No amounts were owed to related parties as of December 25, 2011.

Note 13 – Subsequent events

On April 17, 2012, the Company's Board of Directors adopted and approved the IFCB Holding Corporation 2012 Stock Option Plan authorizing the Company to grant stock options with respect to an aggregate of 15,371 shares. No such options had been granted as of April 20, 2012.



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Consolidated Financial Statements and
Report of Independent Certified Public Accountants

Il Fornaio (America) Corporation and Subsidiary

December 26, 2010 and December 27, 2009

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Grant Thornton

Report of Independent Certified Public Accountants

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We have audited the accompanying consolidated balance sheets of II Fornaio (America) Corporation and subsidiary (collectively, the "Company") as of December 26, 2010 and December 27, 2009, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of II Fornaio (America) Corporation and subsidiary as of December 26, 2010 and December 27, 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

San Francisco, California
March 31, 2011

II Fomaio (America) Corporation
CONSOLIDATED BALANCE SHEETS
December 26, 2010 and December 27, 2009
(in thousands, except share data)

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,288	\$ 11,585
Restricted cash	1,923	1,702
Accounts receivable, net	4,569	4,118
Other receivables	566	941
Inventories	4,952	4,520
Prepaid expenses and other assets	2,140	1,885
Deferred tax assets, net	3,688	4,369
Income taxes receivable	<u>-</u>	<u>147</u>
Total current assets	46,126	29,267
Property and equipment, net	73,184	86,676
Deferred tax assets, net	10,252	12,944
Debt issuance costs, net	398	577
Goodwill	3,775	3,775
Tradename	10,000	10,000
Other assets	<u>807</u>	<u>903</u>
Total assets	<u>\$ 144,542</u>	<u>\$ 144,142</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 12,001	\$ 11,302
Accrued liabilities	28,958	25,409
Current maturities of long-term debt	1,150	1,150
Income taxes payable	<u>360</u>	<u>-</u>
Total current liabilities	42,469	37,861
Long-term debt	127,182	133,965
Deferred lease incentives	10,636	12,443
Other liabilities	<u>2,135</u>	<u>2,159</u>
Total liabilities	<u>182,422</u>	<u>186,428</u>
Commitments and contingencies (Note 9)		
STOCKHOLDERS' EQUITY (DEFICIT):		
Series B 13.5% cumulative compounding preferred stock, 1,500,000 shares authorized; 961,063 shares issued and outstanding; recorded at liquidation preference	38,313	33,755
Class A common stock, \$.001 par value; 4,000,000 shares authorized; 378,484 and 377,326 shares issued and outstanding, respectively	1	1
Additional paid-in-capital	54,940	54,242
Accumulated other comprehensive loss	-	(425)
Accumulated deficit	<u>(131,134)</u>	<u>(129,859)</u>
Total stockholders' deficit	<u>(37,880)</u>	<u>(42,286)</u>
Total liabilities and stockholders' deficit	<u>\$ 144,542</u>	<u>\$ 144,142</u>

The accompanying notes are an integral part of these consolidated financial statements.

II Fornaio (America) Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 26, 2010 and December 27, 2009

(in thousands)

	2010	2009
REVENUES:		
Restaurants	\$ 109,792	\$ 107,251
Wholesale bakeries	30,742	26,306
Retail bakery cafes	224,947	217,520
Franchise	1,365	1,256
Total revenues	366,846	352,333
COSTS AND EXPENSES:		
Cost of revenues	91,462	90,423
Operating expenses	213,473	207,338
Depreciation and amortization	20,256	21,932
General and administrative	26,473	23,028
Pre-opening	240	797
Loss (gain) on store closure	(139)	601
Asset impairment	-	1,045
Stock-based compensation expense	698	500
Total operating costs and expenses	352,463	345,664
Operating income	14,383	6,669
INTEREST AND OTHER INCOME (EXPENSE):		
Other income	19	7
Interest expense	(7,800)	(9,540)
Loss on asset dispositions, net of proceeds	(713)	(667)
Total interest and other income (expense), net	(8,494)	(10,200)
Income (loss) before income taxes	5,889	(3,531)
Income tax provision (benefit)	2,606	(1,412)
Net income (loss)	\$ 3,283	\$ (2,119)

The accompanying notes are an integral part of these consolidated financial statements.

II Fornaio (America) Corporation and Subsidiary

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

Years Ended December 26, 2010 and December 27, 2009

(Dollars in thousands)

	Preferred Stock		Common Stock		Additional	Accumulated	Accumulated	
	Series B				Paid-in	Deficit	Other	Total
	Shares	Amount	Shares	Amount	Capital		Comprehensive	
Balance at December 28, 2008	961,063	\$ 29,740	377,326	\$ 1	\$ 53,742	\$ (123,725)	\$ (1,404)	\$ (41,646)
Accrual of preferred stock dividends	-	4,015	-	-	-	(4,015)	-	-
Stock-based compensation: preferred stock option special accrual	-	-	-	-	478	-	-	478
Stock-based compensation: common stock options	-	-	-	-	22	-	-	22
Comprehensive loss:								
Cash flow hedge gain, net of \$412 tax	-	-	-	-	-	-	979	979
Net loss	-	-	-	-	-	(2,119)	-	(2,119)
Comprehensive loss								(1,140)
Balance at December 27, 2009	961,063	\$ 33,755	377,326	\$ 1	\$ 54,242	\$ (129,859)	\$ (425)	\$ (42,286)
Accrual of preferred stock dividends	-	4,558	-	-	-	(4,558)	-	-
Stock-based compensation: preferred stock option special accrual	-	-	-	-	534	-	-	534
Stock-based compensation: common stock options	-	-	-	-	164	-	-	164
Stock options exercised	-	-	1,158	-	-	-	-	-
Comprehensive income:								
Cash flow hedge gain, net of \$264 tax	-	-	-	-	-	-	425	425
Net income	-	-	-	-	-	3,283	-	3,283
Comprehensive income								3,708
Balance at December 26, 2010	961,063	\$ 38,313	378,484	\$ 1	\$ 54,940	\$ (131,134)	\$ -	\$ (37,880)

The accompanying notes are an integral part of these consolidated financial statements.

II Fomaio (America) Corporation and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 26, 2010 and December 27, 2009
(In thousands)

	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 3,283	\$ (2,119)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	20,256	21,932
Amortization of deferred lease incentives	(1,252)	(1,180)
Amortization and write-off of debt issue costs	179	162
Loss on disposal of fixed assets	713	667
Asset impairment	-	1,045
Deferred income taxes	3,373	(2,309)
Interest paid in kind	849	830
Stock-based compensation expense	698	500
Changes in:		
Restricted cash	(221)	(164)
Accounts receivable and other receivables	(836)	1,085
Inventories	(432)	521
Prepaid expenses and other assets	(159)	185
Accounts payable	699	(5,629)
Accrued liabilities and other liabilities	3,947	1,064
Deferred rent	(199)	533
Income taxes receivable/payable	507	1,131
Net cash provided by operating activities	<u>31,405</u>	<u>18,254</u>
Cash flows from investing activities:		
Capital expenditures	(9,242)	(9,306)
Proceeds from sales of fixed assets	1,412	150
Lease incentives received	760	1,535
Net cash used in investing activities	<u>(7,070)</u>	<u>(7,621)</u>
Cash flows from financing activities:		
Repayment of debt	(7,632)	(1,150)
Net cash used in financing activities	<u>(7,632)</u>	<u>(1,150)</u>
Increase in cash and cash equivalents	16,703	9,483
Cash and cash equivalents, beginning of year	<u>11,585</u>	<u>2,102</u>
Cash and cash equivalents, end of year	<u>\$ 28,288</u>	<u>\$ 11,585</u>
<u>Supplemental disclosure of cash flow information:</u>		
Interest paid	\$ 6,921	\$ 8,585
Income taxes paid	824	2,067
<u>Noncash activities:</u>		
Preferred stock dividend accretion	\$ 4,558	\$ 4,015
Capital asset acquisitions, not yet paid	1,406	1,609
Interest paid in kind	849	830

The accompanying notes are an integral part of these consolidated financial statements.

II Fomaio (America) Corporation and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 26, 2010 and December 27, 2009

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Operations

II Fomaio (America) Corporation and its subsidiary (collectively, the “Company”) are engaged in restaurant operations and the production and sale of Italian bakery products for the wholesale and retail markets. The Company is majority owned by Bruckmann, Rosser, Sherrill & Co. II, L.P. (“BRS”) pursuant to a merger that was completed during 2001. At December 26, 2010, the Company owned and operated 22 Italian white tablecloth restaurants, 101 retail bakery cafes and 2 wholesale bakeries in California, Nevada, Colorado, Washington, Illinois, Washington, D.C., Georgia, Maryland, Texas and Virginia. In addition, the Company franchised 17 retail bakery cafes under the name “Comer Bakery Cafe” in Arizona, Colorado, Mississippi, Pennsylvania, New Jersey, Utah, California and Texas as of December 26, 2010.

The Company is subject to a number of risk factors which could adversely affect future results including, but not limited to (a) an increase in the costs of commodities, as well as access to differing qualities of commodities based on the Company’s relationship with its distributors, and (b) a general economic downturn resulting in decreased consumer spending on discretionary dining and food products.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary CBC Restaurant Corp. Intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

The Company operates on a 52/53-week fiscal year ending on the last Sunday in December. The fiscal years ending December 26, 2010 and December 27, 2009 contained 52 weeks of operations.

Reclassifications

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to fiscal 2010 presentation. These reclassifications have no effect on the Company’s net income or financial position as previously reported.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. Significant estimates include reserves for group insurance and workers’ compensation, impairment of long-lived assets, fair values of acquired assets, valuation of deferred tax assets, and fair values of the Company’s stock and options to purchase the Company’s stock.

II Fomaio (America) Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are carried at cost which approximates market value. Cash balances may exceed federally insured limits from time to time.

Restricted Cash

Restricted cash represents cash restricted for the Company's voluntary disability insurance plan and health benefit providers.

Accounts Receivable

Accounts receivable consist primarily of amounts due from wholesalers, retailers, and offsite catering customers, and are net of allowances for doubtful accounts of \$392,000 and \$530,000 as of December 26, 2010 and December 27, 2009, respectively. The Company maintains an allowance for doubtful accounts based upon the expected collectability of accounts receivable. The Company estimates a bad debt allowance based on its historical write-offs and the age of its receivables. The Company determines past due status based on contractual terms. If actual collection trends change, revisions to the estimated allowance may be required. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to bad debt expense. Two customers represented 40% and 11% of total receivables at December 26, 2010 and 37% and 13% of total receivables at December 27, 2009.

Inventories

Inventories, consisting primarily of wine, liquor, food products and operating supplies, are stated at the lower of cost using the first-in, first-out method ("FIFO"), or market.

Inventories are summarized as follows at December 26, 2010 and December 27, 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Bakery - Finished Goods	\$ 610	\$ 436
Bakery - Raw Materials	1,468	1,105
Restaurant and Cafe	<u>2,874</u>	<u>2,979</u>
Totals	<u>\$ 4,952</u>	<u>\$ 4,520</u>

Property and Equipment

Property and equipment are stated at cost and include interest on funds borrowed to finance construction. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives: leasehold improvements—lesser of the lease term or the life of improvements; furniture, fixtures and equipment—three to ten years.

Il Fornaio (America) Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the Company's consolidated statement of operations for the period. The costs of maintenance and repairs are charged to operations as incurred. Significant renewals and betterments are capitalized.

For the year ended December 27, 2009, the Company capitalized \$86,000 of interest primarily related to leasehold improvements for restaurants and bakery cafes under development. No such amounts were capitalized for the year ended December 26, 2010.

Rent Expense

Minimum rental expenses are recognized on a straight-line basis over the term of the lease commencing when possession of the property is taken from the landlord. Therefore, the amortization period can include a construction period prior to the restaurant or bakery opening. These expenses are classified as pre-opening expenses on the accompanying consolidated statements of operations. When a lease contains a predetermined fixed escalation of minimum rents, the Company recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts payable under the lease as deferred rent.

The Company also receives tenant allowances, which are treated as deferred lease incentives for operating leases. Deferred lease incentives are amortized over the base term of the lease (including the construction period) as a reduction to rent expense. Renewal periods are included in the lease term only if they are reasonably assured. Deferred rent is presented with deferred lease incentives in the accompanying consolidated financial statements.

Certain leases provide for contingent rents that are not measurable at the inception of the lease because they are based on a percentage of sales that are in excess of a predetermined breakpoint. These amounts are excluded from minimum rent but are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

Impairment of Long-Lived Assets

Long-lived assets, including identifiable intangible assets, recorded by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company reviews assets held and used on an individual restaurant and bakery basis, which is the lowest level at which there are identifiable cash flows. Recoverability of assets to be held and used is initially measured by a comparison of the carrying value of the assets to the future undiscounted net cash flows expected to be generated by the assets. If such assets are determined to be impaired, the impairment to be recognized is measured as the difference between the related carrying amounts and estimated fair values. Impairment charges of \$1,045,000 were recorded in 2009. No impairment charges were recorded in 2010.

II Fornaio (America) Corporation and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 26, 2010 and December 27, 2009

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over fair value of assets of businesses acquired. The Company uses the purchase method of accounting for business combinations and recognizes intangible assets acquired in a purchase method business combination apart from goodwill if certain criteria are met. Intangible assets with finite lives are amortized over their respective useful lives and reviewed for impairment if events and circumstances indicate that the assets might be impaired.

Tradename consists of the acquired brand name of Corner Bakery Cafe which has been determined to have an indefinite life and is therefore not currently being amortized.

Goodwill and intangible assets not subject to amortization are tested annually for impairment and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. The impairment test involves a two-step process. The first step involves comparing the fair value of the reporting units to their carrying values, including goodwill and indefinite lived intangible assets (trademark). If the carrying value of the reporting unit exceeds its estimated fair value, the second step of the test is performed by comparing the carrying value of the goodwill and trademarks in the reporting unit to their implied fair value. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

No adjustments for impairment of goodwill or intangible assets were recorded in fiscal years 2010 or 2009.

Debt Issuance Costs

The costs related to the issuance of debt are capitalized and amortized to interest expense using the effective interest method over the term of the related debt and are recorded net of accumulated amortization of \$663,000 and \$484,000 at December 26, 2010 and December 27, 2009, respectively.

Pre-Opening Expenses

Pre-opening costs are expensed as incurred. Pre-opening costs consist of location setup, rent, employee training and promotion associated with the opening of new locations.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was approximately \$7.3 million and \$6.2 million during 2010 and 2009, respectively.

Income Taxes

Income taxes are accounted for using the liability method, under which deferred taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities using enacted tax rates in effect for the years during which the temporary differences are expected to reverse. A valuation allowance is established to reduce tax assets to the amount that, based on available evidence, is more likely than not to be realized.

II Fomaio (America) Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Pursuant to the statute of limitations, the Company is open to audit by the Internal Revenue Service (“IRS”) for 2006-2010 tax years and various state taxing authorities for 2005-2010 tax years. The Company currently does not have any examinations in progress with the IRS or states. The Company does not anticipate that there will be any material changes in its unrecognized tax positions over the next 12 months.

The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to its financial results. In the event the Company has such an assessment from a taxing authority, it is its accounting policy to recognize any interest and penalties as a component of income tax expense.

Stock-Based Compensation

The Company recorded \$164,000 and \$22,000 of stock-based employee compensation relating to common stock options during the years ended December 26, 2010 and December 27, 2009, respectively. The Company also recorded \$534,000 and \$478,000 in stock-based compensation relating to special accrual on preferred stock options (discussed in Note 6) during the years ended December 26, 2010 and December 27, 2009, respectively. There were no stock options granted during the year ended December 27, 2009. The fair value of common stock options granted and modified during the year ended December 26, 2010, was estimated on the date of grant using the Black-Scholes-Merton option pricing model based on the weighted average assumptions in the table below:

	<u>2010</u>
Expected term (years)	3.00
Risk-free interest rate	1.05%
Weighted-average volatility	63%
Weighted-average grant-date fair value per share	\$4.90

The expected term of the options is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at the grant date. Volatility for common options is based on the historical volatility of several public entities that are similar to the Company as the Company does not have sufficient historical transactions of its own shares on which to base expected volatility.

Revenue Recognition

Revenue from restaurant sales is recognized when food and beverage products are sold. Revenue from bakery sales is recognized when the bakery products are shipped. Sales returns have been insignificant to date.

Various governmental authorities directly impose taxes on sales including sales, use, value added and some excise taxes. The Company excludes such taxes from net sales.

II Fornaio (America) Corporation and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 26, 2010 and December 27, 2009

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Franchise Fees and Royalties

The franchise agreements for Comer Bakery Cafes provide for an initial fee and continuing royalty payments based upon gross sales in remm for operational support, product development, marketing programs and various administrative services. Royalty revenue is recognized on the accmal basis and initial fees are not recognized until the franchisee's cafe is opened. Fees for granting exclusive development rights to specific geographic areas are recognized when the right has been granted and cash received is non-refundable. The Company has entered into development agreements pursuant to which 174 additional cafes may be opened in the fimre. The Company provides site selection review and advice on construction cost and administration, training and other administrative support to franchisees related to each anticipated future opening. Initial franchise and development fees of \$225,000 and \$360,000 were recognized during 2010 and 2009, respectively.

Deferred Revenue

The Company offers gift certificates for sale in the form of gift cards. Revenue from gift cards issued is deferred until the gift cards are redeemed at the Company's restaurants.

Comprehensive Loss

Comprehensive income (loss) is an additional income (loss) measure reported in the financial statements, which adjusts net loss for certain items reflected as direct charges to equity. Comprehensive loss for the Company includes the effective portion of the gain or loss on the derivative instrmnts that are designated and qualify as a cash flow hedge.

Fair Value of Financial Instrmnts

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accmed liabilities, the Company's revolving credit facility and long-term debt are reasonable estimates of the fair values of these financial instrmnts.

Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Company uses a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. Instrmnts with readily available actively quoted prices, or for which fair value can be measured from actively quoted prices in an orderly market, will generally have a higher degree of market price transparency and a lesser degree of judgment used in measuring fair value.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs are quoted price in active markets for identical assets or liabilities as of the measurement date. The types of instruments which would generally be included in Level 1 include listed equity securities.

Il Fomaio (America) Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments (continued)

Level 2 – Inputs are observable for the asset or liability, either directly or indirectly, as of the measurement date, but are other than quoted prices in active markets as in Level 1. The types of instruments which would generally be included in this category include unlisted derivative financial instruments and fixed income investments.

Level 3 – Inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant judgment or estimation by the reporting entity. The types of instruments which would generally be included in this category include privately held investments, partnership interests and similar interests, and beneficial interests in trusts held by others.

Financial instruments subject to fair value measurement include money market funds in the amounts of \$22,895,304 and \$9,123,755 as of December 26, 2010 and December 27, 2009, respectively, which are classified as cash and cash equivalents on the accompanying consolidated balance sheets. These instruments are valued using Level 1 inputs.

The Company's derivative instrument (consisting solely of an interest rate swap agreement) was valued using Level 2 inputs.

Derivatives

The Company accounts for its interest rate swap agreement based on guidance that requires recognition of derivative instruments as either assets or liabilities in the accompanying consolidated balance sheets. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether the instrument has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Any derivatives that do not qualify as a hedge are adjusted to fair value through income.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument for the years ended December 26, 2010 and December 27, 2009 is reported as a component of other comprehensive income.

II Fornaio (America) Corporation and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance related to the disclosure requirements for fair value measurements and provided clarification for existing disclosure requirements. More specifically, this update required (a) an entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers, and (b) information about purchases, sales, issuances and settlements to be presented separately, on a gross basis rather than net, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This guidance clarified existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value, and required disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The new disclosures and clarifications of existing disclosure were effective beginning in fiscal year 2010, except for the disclosure requirements related to the purchases, sales, issuances and settlements in the roll-forward activity of Level 3 fair value measurements, which are effective for fiscal years ending after December 31, 2010. The adoption of this new accounting guidance impacts only disclosure requirements and did not and will not have an impact on the Company’s consolidated financial position, results of operations or financial condition.

Subsequent Events

Subsequent events have been evaluated through March 31, 2011, which is the date the consolidated financial statements were issued.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 26, 2010 and December 27, 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 133,859	\$ 133,274
Machinery and equipment	61,553	56,882
Furniture and fixtures	<u>22,288</u>	<u>21,322</u>
Total	217,700	211,478
Less accumulated depreciation and amortization	(144,535)	(126,023)
Construction in progress	<u>19</u>	<u>1,221</u>
Property and equipment, net	<u>\$ 73,184</u>	<u>\$ 86,676</u>

During the year, the Company disposed of fixed assets with a net book value of \$2,516,000. The disposals consisted of \$585,000 related to the closure of a CBC cafe in January 2010 (consisting primarily of leasehold improvements), \$1,560,000 related to the sales of 2 CBC cafes to the Company’s franchisees (consisting primarily of leasehold improvements), and \$371,000 related to assets disposed of in the normal course of business.

Il Foruio (America) Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 3 – ACCRUED EXPENSES

Accrued expenses consisted of the following at December 26, 2010 and December 27, 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Accrued payroll and related benefits	\$ 15,251	\$ 11,201
Gift cards and certificates	4,874	4,535
Accrued rent	1,448	1,434
Accrued sales taxes	2,907	3,124
Accrued interest	530	701
Accrued construction costs	1,406	1,609
Other	<u>2,542</u>	<u>2,805</u>
Total accrued expenses	<u>\$ 28,958</u>	<u>\$ 25,409</u>

NOTE 4 – REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

On February 2, 2006, the Company completed a financing in the form of an \$84 million Term Loan and a \$15 million Revolving Credit Facility which included an \$8 million letter of credit facility (the “2006 Revolving Credit and Term Loan Agreement”). The proceeds from this financing were used primarily to acquire Corner Bakery Cafe and to pay off the Company’s then outstanding revolving credit facility. On March 29, 2007, the Company completed a new financing that in whole superseded the 2006 Revolving Credit Facility dated February 2, 2006 in the form of a \$115 million Term Loan and a \$30 million Revolving Credit and Term Loan Agreement which includes an \$8 million letter of credit facility (the “2007 Revolving Credit and Term Loan Agreement”). The proceeds from this financing were used primarily to pay off the outstanding term loan dated February 2, 2006 and to re-purchase stock from certain shareholders and option holders of the Company. The 2007 Revolving Credit and Term Loan Agreement is secured by substantially all of the assets of the Company with interest payable at the bank’s Eurodollar rate plus applicable margin, currently at 2.75%. A commitment fee (currently at 0.50% per annum) on the unused portion of the Revolving Credit Facility is payable quarterly. The 2007 Revolving Credit and Term Loan Agreement expire on March 29, 2012 and March 29, 2013, respectively, with all unpaid principal and interest due on those dates. As of December 26, 2010 and December 27, 2009, \$99.5 million and \$107.1 million, respectively, were outstanding under the term loan facilities and no amounts were outstanding under the revolving credit facilities for both years. Additionally, letters of credit had been issued for \$2.7 million for the years ended December 26, 2010 and December 27, 2009. As of December 26, 2010, \$27,300,000 was available under the revolving credit facility and \$5,269,000 was available under the letter of credit facilities.

On February 2, 2006, the Company entered into a Note Purchase Agreement under which \$24.9 million of senior subordinated notes (the “2006 Mezzanine Debt”) were issued. The 2006 Mezzanine Debt is subordinated to the 2007 Revolving Credit and Term Loan Facility. Interest on the 2006 Mezzanine Debt is payable quarterly at 12% per annum, including 3% of payment in kind interest and expires on September 29, 2013. As of December 26, 2010 and December 27, 2009, approximately \$28.8 million and \$28.0 million, respectively, were outstanding on the 2006 Mezzanine Debt including \$3.9 million and \$3.1 million, respectively, of in-kind interest.

II Fornaio (America) Corporation and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 26, 2010 and December 27, 2009

NOTE 4 – REVOLVING CREDIT FACILITY AND LONG-TERM DEBT (continued)

Long-term debt consisted of the following at December 26, 2010 and December 27, 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Line of credit	\$ -	\$ -
Term loan	99,493	107,125
Mezzanine debt	<u>28,839</u>	<u>27,990</u>
Total	128,332	135,115
Less current maturities	<u>(1,150)</u>	<u>(1,150)</u>
Total	<u>\$ 127,182</u>	<u>\$ 133,965</u>

The future minimum principal payments are as follows (in thousands):

<u>Years Ending December</u>	<u>Term Loan</u>	<u>Mezzanine Debt</u>	<u>Total</u>
2011	\$ 1,150	\$ -	\$ 1,150
2012	1,150	-	1,150
2013	<u>97,193</u>	<u>28,839</u>	<u>126,032</u>
Total	<u>\$ 99,493</u>	<u>\$ 28,839</u>	<u>\$ 128,332</u>

The 2007 Revolving Credit and Term Loan Agreement and the Note Purchase Agreement contain various restrictive covenants including ratios (as defined in the agreements) relating to leverage, cash flow, EBITDAR (earnings before interest, taxes, depreciation, amortization and rent expense) to total interest and rental expense, additional debt incurrence, capital expenditures, asset sales, operating leases, as well as other customary covenants, representations and warranties. The Company was in compliance with these covenants as defined in the 2007 Revolving Credit and Term Loan agreement and the Note Purchase agreement as of December 26, 2010. The Revolving Credit and Term Loan commitments are collateralized by substantially all of the Company's assets.

NOTE 5 – INTEREST RATE SWAP

In order to reduce exposure to changes in interest rates related to variable rate debt, the Company entered into an interest rate swap contract with a financial institution, dated April 10, 2007, in conjunction with its senior financing as required by the bank. The swap rate was based on the floating 30-day LIBOR rate and was structured such that if the loan rate for the period exceeded the fixed rate of the swap, then the bank paid the Company to lower the effective interest rate. Conversely, if the loan rate was lower than the fixed rate, the Company paid the bank additional interest. The interest rate swap included a notional amount of \$44.7 million, fixed interest rate of 5.00% and matured in April 2010. The total notional amount committed to the interest rate swap was \$43.3 million as of December 27, 2009.

The fair value of the interest rate swap was a liability of \$689,000 as of December 27, 2009, which is included in other liabilities in the accompanying consolidated balance sheets. The Company's objective in entering into this swap transaction was to reduce the risk associated with future variable interest rate fluctuations. The interest rate swap expired during the year ended December 26, 2010.

II Fomaio (America) Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 5- INTEREST RATE SWAP (CONTINUED)

Accounting and reporting standards require that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at fair value. The changes in the derivative instrument's fair value are recognized in earnings unless the specific hedge accounting criteria are met. When such criteria are met, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income. As the Company had met such criteria with respect to the interest rate swap and it was considered to be fully effective, the Company reported all changes in fair value of its interest rate swap in accumulated other comprehensive income (loss). Accordingly, the Company had an accumulated other comprehensive loss balance of \$425,000 (\$689,000 net of tax effect of \$264,000) at December 27, 2009. There was no such balance at December 26, 2010.

NOTE 6 - STOCKHOLDERS' EQUITY

The Company is authorized to issue up to 10,000,000 aggregate number of shares, divided into three classes consisting of 5,000,000 shares of preferred stock, par value \$0.001 per share ("Preferred Stock"), 4,000,000 shares of Class A common stock, par value \$0.001 per share ("Class A Common Stock"), and 1,000,000 shares of Class B common stock, par value \$0.001 per share ("Class B Common Stock"). There were 378,484 and 377,326 shares of Class A Common Stock and no shares of Class B Common Stock issued and outstanding as of December 26, 2010 and December 27, 2009, respectively.

Preferred Stock

The Company has fixed the designations and preferences and relative participating, optional and other special rights, qualifications, limitations and restrictions of three series of Preferred Stock all with a par value of \$0.001 per share, consisting of 2,000,000 shares to be designated Series A 13.0% Cumulative Compounding Preferred Stock ("Series A Preferred"); 1,500,000 shares to be designated Series B 13.5% Cumulative Compounding Preferred Stock ("Series B Preferred"); and 1,000,000 shares to be designated Series C 35.0% Cumulative Compounding Preferred Stock ("Series C Preferred"). The holders of Series A, Series B and Series C Preferred shall not be entitled or permitted to vote on any matter required or permitted to be voted upon by the stockholders of the Company, except as otherwise required by Delaware law or the Preferred Stock Certificate of Designation.

Series A and Series C Preferred

The Company did not have any Series A or Series C Preferred Stock issued or outstanding during 2009 and 2010.

Series B Preferred

The Series B Preferred ranks junior to any outstanding Series A Preferred and senior to all classes of Common Stock and all other classes of Preferred Stock and has a liquidation preference of \$12 per share, plus accrued and unpaid dividends \$38,313,000 and \$33,756,000 at December 26, 2010 and December 27, 2009, respectively. Each holder of Series B Preferred shall be entitled to receive cash dividends on each share of Series B Preferred at a rate per annum equal to 13.5% of the liquidation preference. All dividends shall be cumulative, whether or not earned or declared, shall accrue on a daily basis from the date of issuance of Series B Preferred and compound annually on July 31.

II Fomaio (America) Corporation and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 6 – STOCKHOLDERS' EQUITY (continued)

Warrants

The Company has outstanding warrants to purchase 4,874 shares of Class A Common Stock outstanding at December 26, 2010 and December 27, 2009. The Warrants are exercisable at \$0.01 per share and expire on July 17, 2011, and are subject to certain anti-dilution adjustments. The holders of the Warrants may require the Company to repurchase all of the Warrants or the stock issued pursuant to the exercise of the Warrants at a price equal to the fair value of the Company's stock on the date of repurchase. As a result of the put feature, the estimated fair value of the remaining warrants has been recorded as a liability, included in other liabilities on the accompanying consolidated balance sheets. The total liability recorded related to outstanding warrants was \$103,366 as of December 26, 2010 and December 27, 2009. Increases in the fair value of the warrants are recorded as additional interest expense and as an increase in the liability.

Stock Option Plans

In July 2001, the Board of Directors (the "Board") adopted and approved the II Fomaio (America) Corporation 2001 Stock-Based Incentive Compensation Plan (the "2001 Plan"). The 2001 Plan was superseded by the adoption of the 2006 Stock-Based Incentive Compensation Plan (the "2006 Plan") under which the Company can grant incentive stock options to employees and nonqualified stock options to employees, consultants and nonemployee directors. The total number of shares authorized and available for awards under the 2006 Plan as of December 26, 2010 was as follows:

	<u>Number of Shares Authorized</u>	<u>Shares Available for Awards</u>
Series A Preferred	185,000	185,000
Series B Preferred	265,000	48,018
Common Stock	200,000	125,948

The 2001 Plan and 2006 Plan are administered by the Board. The exercise price per share for common stock, Series A Preferred or Series B Preferred options shall be determined by the Board, but shall be no less than 85% of the fair market value of a share of the applicable underlying stock on the date of grant, or in the case of any incentive stock option, the exercise price per share shall not be less than 100% of the fair market value of a share of the applicable underlying stock on the date of grant. The fair market value of a share of stock shall be determined by the Compensation Committee of the Board. Incentive stock options generally vest ratably over three to four years and expire no more than ten years from the date of grant. The Company recognizes compensation costs for these awards on a straight-line basis over the requisite service period. Nonqualified Series A and Series B Preferred options issued during 2001 were fully vested upon issuance and were to expire within seven years from the date of grant. Such nonqualified options allow the Company to repurchase any vested but unexercised options if the option holder's employment terminates for any reason at a repurchase price as defined in the option agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 6 – STOCKHOLDERS' EQUITY (continued)

Stock Plans (continued)

In addition, a right to payment from the Company accrues on the outstanding Series A and Series B Preferred options at a rate equal to the dividend rate per share, as set forth for the applicable series of preferred stock, multiplied by the liquidation preference per share (\$12) less the option price per share (the "Special Accrual"). The Special Accrual is cumulative, accrues on a daily basis from the date of grant and compounds annually on July 31, through the date the option is exercised, at which time, the Company has the option to pay the Special Accrual in the form of cash or a reduction in the option exercise price. For the years ended December 26, 2010 and December 27, 2009, the Company recorded a Special Accrual of approximately \$534,000 and \$478,000, respectively, as stock compensation expense and an addition to additional paid-in-capital.

During fiscal 2008, as the Series B Preferred options were due to expire, 216,982 options were modified to extend the expiration date by 10 years to July 17, 2018. The modified options become exercisable only upon a liquidity event and retained all of their other features including the continuation of the Special Accrual.

In addition to the stock-based compensation expense discussed above in connection with the Series B Preferred options, \$164,000 and \$25,000 of stock compensation expense has been recognized in the 2010 and 2009 consolidated financial statements, respectively, related to common stock options granted since fiscal 2006. As of December 26, 2010, the Company had \$21,000 of total unrecognized compensation cost related to unvested awards granted under the Company's stock-based compensation plan that the Company expects to recognize over a weighted-average remaining period of 2 years. The weighted-average grant-date fair value of options granted during the year ended December 26, 2010 was \$7.52 per share. The total fair value of shares vested during the year is \$63,437.

During fiscal year 2010 common stock options were modified for 12 of the Company's employees. Specifically, the modifications reduced the exercise price for certain stock options from \$54.69 to \$1.65 per share. The modifications also eliminated performance related conditions for certain common stock options. The achievement of such performance conditions was considered remote, and as such, no compensation expense had previously been recorded for such awards. Total incremental compensation cost resulting from the modifications was \$145,000 for the year ended December 26, 2010.

II Fornaio (America) Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 6 – STOCKHOLDERS' EQUITY (continued)

Stock Plans (continued)

Information regarding options outstanding as of December 26, 2010, was as follows:

<u>Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number</u> <u>Outstanding</u>	<u>Weighted-</u> <u>Average</u> <u>Remaining</u> <u>Contractual</u> <u>Life</u> <u>(Years)</u>	<u>Weighted-</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Weighted-</u> <u>Average</u> <u>Number</u> <u>Exercisable</u>	<u>Weighted-</u> <u>Average</u> <u>Exercise</u> <u>Price</u>
Common Stock options:					
\$ 0.50	60,020	5.2	\$ 0.50	35,520	\$ 0.50
\$ 1.65	13,994	9.3	\$ 1.65	6,294	\$ 1.65
\$ 12.00	<u>488</u>	0.6	\$ 12.00	<u>488</u>	\$ 12.00
\$ 0.50 – \$12.00	<u><u>74,502</u></u>	5.3	\$ 0.79	<u><u>42,302</u></u>	\$ 1.19
Preferred Stock options:					
\$4.50 – \$6.84	147,211	7.6	\$ 4.82	147,211	\$ 4.82
\$7.05 – \$9.44	<u>69,771</u>	7.6	\$ 7.80	<u>69,771</u>	\$ 7.80
\$4.50 – \$9.44	<u><u>216,982</u></u>	7.6	\$ 5.78	<u><u>216,982</u></u>	\$ 5.78

II Fomaio (America) Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 6 – STOCKHOLDERS' EQUITY (continued)

Stock Plans (continued)

The following tables reflect the activity under the Company's stock option plans during the year ended December 27, 2009:

	Common Shares	Weighted- Average Exercise Price
Balance, December 28, 2008	74,953	\$ 7.11
Granted	-	\$ -
Exercised	-	\$ -
Cancelled	(2,550)	\$ (54.69)
Balance, December 27, 2009	<u>72,403</u>	<u>\$ 5.44</u>
Granted	7,500	\$ 1.65
Exercised	(1,158)	\$ 0.50
Cancelled	(4,243)	\$ (0.50)
Balance, December 26, 2010	<u>74,502</u>	<u>\$ 0.79</u>

	Preferred Shares	Weighted- Average Exercise Price
Balance, December 28, 2008	216,982	\$ 5.78
Granted	-	\$ -
Exercised	-	\$ -
Cancelled	-	\$ -
Balance, December 27, 2009	<u>216,982</u>	<u>\$ 5.78</u>
Granted	-	\$ -
Exercised	-	\$ -
Cancelled	-	\$ -
Balance, December 26, 2010	<u>216,982</u>	<u>\$ 5.78</u>

II Fornaio (America) Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 7 – INCOME TAXES

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) tax credit carryforwards. Significant components of the Company's net deferred tax balances as of December 26, 2010 and December 27, 2009 were as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Tax credit carry forwards	\$ 4,700	\$ 3,875
Compensation related	6,382	6,057
Fixed assets	1,331	4,914
Deferred rent liability	1,519	1,534
Deferred revenue	1,482	1,432
Financial instruments	-	264
State taxes	288	256
Impairment losses	84	377
Accrued expenses	198	319
Other	<u>1</u>	<u>1</u>
Total deferred tax assets	<u>15,985</u>	<u>19,029</u>
Deferred tax liabilities:		
Amortization of transaction costs	(1,142)	(910)
Prepaid expenses	<u>(249)</u>	<u>(152)</u>
Total deferred tax liabilities	<u>(1,391)</u>	<u>(1,062)</u>
Valuation allowance	<u>(654)</u>	<u>(654)</u>
Net deferred tax assets	<u>\$ 13,940</u>	<u>\$ 17,313</u>

The Company has unused alternative minimum tax credits of approximately \$730,000 and state tax credits of approximately \$653,000, which have an indefinite carryforward period. The Company has unused general business credit carryforwards of approximately \$3,311,000, which begin to expire in 2020. These credits are available to offset future taxable income and have been reduced by a valuation allowance of \$654,000 as of December 26, 2010 and December 27, 2009, for amounts for which future utilization is not deemed more likely than not as of both year ends.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment.

II Fomaio (America) Corporation and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 26, 2010 and December 27, 2009

NOTE 7 – INCOME TAXES (continued)

The provision (benefit) for income taxes consists of the following (in thousands):

	<u>2010</u>	<u>2009</u>
Current provision (benefit):		
Federal	\$ (1,325)	\$ 325
State	<u>820</u>	<u>572</u>
Total current provision (benefit)	(505)	897
Deferred provision (benefit)	<u>3,111</u>	<u>(2,309)</u>
Income tax provision (benefit)	<u>\$ 2,606</u>	<u>\$ (1,412)</u>

The effective tax rate differs from the federal statutory rate due primarily to state taxes, the effects of permanent differences not deductible for tax purposes and tax credits.

The Company adopted new accounting guidance related to the accounting for uncertain tax positions on December 29, 2008. The new guidance provides requirements for accounting and disclosure of uncertain tax provisions and for the recognition and measurement related to the accounting for income taxes. Upon adoption, a full inventory of tax positions was compiled by management by reviewing the Company's current permanent and temporary timing differences, tax positions taken in current and prior tax returns, non-filing exposures domestically, tax positions not taken (deductions available, but not taken, which we have deemed to be not applicable), taxing authority examinations and book accounting policies.

Upon review of the filing positions relative to the Federal and State tax returns for the open years of 2006 through 2008, management concluded that there were no adjustments for unrecognized tax benefits, as a result of the adoption of the new guidance, that impacted the beginning retained earnings balance as of December 29, 2008 (the required date of adoption). Further, there have been no adjustments for unrecognized tax benefits during the years December 26, 2010 and December 27, 2009.

NOTE 8 – 401(K) PLAN

In February 2001, the Company adopted the II Fomaio 401(k) Plan (the "401(k) Plan") covering all employees who have met certain eligibility requirements. Under the 401(k) Plan, employees may elect to contribute up to 15% of their eligible compensation to the 401(k) Plan, subject to certain limitations. In addition, the Company may allow employees to make additional contributions of any Company paid cash bonuses made for such employees during the plan year, subject to certain limitations. The Company may make matching contributions during the year equal to a discretionary percentage, as determined by the Company, of the participant's salary reductions. Employer contributions vest at the rate of 20% per year with full vesting after 5 years of service with the Company. The Company did not make any contributions to the 401(k) Plan for the years ended December 26, 2010 and December 27, 2009.

II Fomaio (America) Corporation and Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases all restaurant, cafe, wholesale bakery and office space under operating leases, which terminate at various dates between 2011 and 2023. Certain leases require increased rental payments, generally related to changes in the Consumer Price Index and increases in property taxes and certain leases also provide for additional rent based on a percentage of sales. Total rent expense for all operating leases were as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Minimum rentals	\$ 20,526	\$ 20,276
Contingent rentals	<u>1,567</u>	<u>1,352</u>
Total rental expense	<u>\$ 22,093</u>	<u>\$ 21,628</u>

At December 26, 2010, future minimum lease payments under long-term operating leases were as follows (in thousands):

Year Ending	
<u>December</u>	
2011	\$ 21,018
2012	18,630
2013	15,655
2014	12,506
2015	10,675
Thereafter	<u>23,280</u>
Total	<u>\$ 101,762</u>

Workers' Compensation Accrual

The Company carries a \$100,000 deductible limit per occurrence for workers' compensation claims. An actuarial estimate of uninsured losses has been used to record the Company's estimated liability. The reserve for estimated claim costs, net of payments made, amounted to \$2,593,000 and \$3,260,000 at December 26, 2010 and December 27, 2009, respectively, and is included in accrued liabilities on the accompanying consolidated balance sheets.

Legal Contingencies

The Company is a party to various legal proceedings arising in the ordinary course of its business. Although no assurance can be given, the Company does not currently expect any of these proceedings to have a material adverse effect on the Company's business, financial condition or results of operations.

Il Fornaio (America) Corporation and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 26, 2010 and December 27, 2009

NOTE 10 – RELATED PARTY BALANCES AND TRANSACTIONS

The Company is party to a management agreement with BRS that requires the Company to pay an annual management fee to BRS equal to 1.5% of EBITDA. The Company recorded management fee expense to BRS of \$540,000 and \$486,000 in 2010 and 2009, respectively. Prepaid expenses and other assets included management fees to BRS of \$269,000 at December 26, 2010, which were a prepayment for fees due in 2011. Other liabilities included management fees payable to BRS of \$6,000 at December 27, 2009.


GUARANTEE OF PERFORMANCE

For value received, IFCB Holding Corporation, a Delaware corporation (the "Guarantor"), located at 770 Tamalpais Drive, Suite 400, Corte Madera, California 94925, absolutely and unconditionally guarantees to assume the duties and obligations of CBC Restaurant Corp., located at 12700 Park Central Drive, Suite 1300, Dallas, Texas 75251 (the "Franchisor"), under its franchise registration in each state where the franchise is registered, and under its Franchise Agreement identified in its Franchise Disclosure Document issued May 18, 2012, as it may be amended, and as that Franchise Agreement may be entered into with franchisees and amended, modified or extended from time to time. This guarantee continues until all such obligations of the Franchisor under its franchise registrations and the Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, which ever occurs first. The Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive receipt of notice of default on the part of the Franchisor. This guarantee is binding on the Guarantor and its successors and assigns.

The Guarantor executes this guarantee at Dallas, Texas, on the 18 day of May, 2012.

Guarantor: IFCB Holding Corporation

By:


Richard Peabody
Chief Financial Officer & Senior Vice President

UNAUDITED FINANCIAL STATEMENTS

THESE FINANCIAL STATEMENTS HAVE BEEN PREPARED WITHOUT AN AUDIT. PROSPECTIVE FRANCHISEES OR SELLERS OF FRANCHISES SHOULD BE ADVISED THAT NO CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR EXPRESSED AN OPINION WITH REGARD TO THEIR CONTENT OR FORM.

IFCB Holding Corporation

CONSOLIDATED BALANCE SHEETS

March 25, 2012 and December 25, 2011

(in thousands, except share data)

	Consolidated March 25, 2012 (Unaudited)	Consolidated December 25, 2011
Current assets:		
Cash and cash equivalents	10,931	15,161
Restricted cash	2,260	2,187
Accounts receivable—net	5,355	4,788
Other receivables	2,305	1,077
Inventories	5,195	5,384
Prepaid expenses and other assets	3,522	3,360
Income taxes receivable	353	202
Deferred tax assets—net	4,353	4,353
Total current assets	34,274	36,512
Property and equipment, net	114,279	114,818
Deferred tax assets, net		
Debt issuance costs, net	7,978	8,282
Goodwill	133,070	133,070
Other intangible assets	136,596	136,201
Other assets	754	769
Total assets	426,951	429,652
Current liabilities:		
Accounts payable	13,529	13,461
Accrued liabilities	28,572	32,009
Current maturities of long-term debt	1,300	1,300
Total current liabilities	43,401	46,770
Long-term debt	178,236	178,306
Deferred lease incentives	3,753	2,474
Deferred tax liabilities, net	50,347	50,346
Other liabilities	21,936	21,079
Total liabilities	297,673	298,975
Stockholders' equity (deficit)		
Common stock, \$.01 par value; 200,000 shares authorized; 133,841 shares issued and outstanding (Successor)	1	1
Additional paid-in-capital	138,340	138,340
Accumulated deficit	(9,063)	(7,664)
Total stockholders' equity	129,278	130,677
Total liabilities and stockholders' equity	426,951	429,652

IFCB Holding Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS

Year to date through March 25, 2012 and March 27, 2011

(in thousands)

	Year to Date March 25, 2012 (Successor) (Unaudited)	Year to Date March 27, 2011 (Predecessor) (Unaudited)
Revenues:		
Restaurants	\$ 28,656	\$ 28,070
Wholesale bakeries	10,141	8,494
Retail bakery cafes	54,505	52,417
Franchise	670	378
Total revenues	93,972	89,360
Operating costs and expenses		
Cost of revenues	24,407	23,138
Operating expenses	55,279	52,407
Depreciation and amortization	4,312	4,507
General and administrative	7,687	6,726
Pre-opening costs	166	0
Store closure expense	10	-
Stock-based compensation expense	-	143
Total operating costs and expenses	91,862	86,922
Operating income	2,110	2,438
Interest and other income (expense)		
Other income	-	4
Interest expense	(4,153)	(1,720)
Loss on asset dispositions, net of proceeds	(84)	-
Total interest and other income (expense), net	(4,237)	(1,716)
Income (loss) before income taxes	(2,127)	722
Income tax provision (benefit)	(726)	273
Net income (loss)	(1,401)	449

EXHIBIT I

ADDITIONAL DISCLOSURES REQUIRED BY CERTAIN STATES

**ADDITIONAL DISCLOSURES REQUIRED BY
THE STATE OF CALIFORNIA**

ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES
REQUIRED BY THE STATE OF CALIFORNIA

1. SECTION 31125 OF THE CALIFORNIA CORPORATIONS CODE REQUIRES US TO GIVE YOU A DISCLOSURE DOCUMENT, IN A FORM CONTAINING THE INFORMATION THAT THE COMMISSIONER MAY BY RULE OR ORDER REQUIRE, BEFORE A SOLICITATION OF A PROPOSED MATERIAL MODIFICATION OF AN EXISTING FRANCHISE.

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

See the cover page of the disclosure document for our URL address. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF CORPORATIONS. ANY COMPLAINTS CONCERNING THE CONTENTS OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF CORPORATIONS AT WWW.CORP.CA.GOV.

2. Item 3, Additional Disclosure. The following statement is added to Item 3:

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

3. Item 17, Additional Disclosures. The following statements are added to Item 17:

California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination or non-renewal of the Franchise. If the franchise agreements contain a provision that is inconsistent with the law, the law will control.

The franchise agreements provide for termination upon bankruptcy. These provisions may not be enforceable under federal bankruptcy law (11 U.S.C.A. § 101, *et seq.*).

The franchise agreements provide for application of the laws of Texas. This provision may not be enforceable under California law.

The franchise agreements contain a covenant not to compete which extends beyond the termination of the franchise. These provisions may not be enforceable under California law.

The franchise agreement contains liquidated damages clauses. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

You must sign a general release when you execute the Franchise Agreement and the Development Agreement (if applicable) and if you transfer your franchise or development rights (if applicable) or execute a successor franchise agreement. These provisions may not be enforceable under California law. 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 21000 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043).

**ADDITIONAL DISCLOSURES REQUIRED BY
THE STATE OF HAWAII**

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES
REQUIRED BY THE STATE OF HAWAII**

1. **Item 5, Initial Franchise Fee.** The following section is added after the Section entitled "Initial Franchise Fee" in Item 5:

Fee Deferral

Based upon the review of the audited consolidated financial statements of our corporate parent, Il Fornaio (attached as Exhibit G), by the State of Hawaii's Department of Commerce and Consumer Affairs, Business Registration Division ("Division"), the Division requires that we defer the payment of: (1) the Development Fee until the first Franchised Cafe required to be developed under the Development Agreement opens for business; and (2) the Initial Franchise Fee for each Franchised Cafe until the relevant Franchised Cafe opens for business. Upon the opening of the first Franchised Cafe that you develop under the Development Agreement, you must pay to us the Development Fee. Upon the opening of each Franchised Cafe, you must pay to us the Initial Franchise Fee for that Franchised Cafe.

2. **Miscellaneous Disclosures.** The following paragraphs are added after Item 23:

THESE FRANCHISES HAVE BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.

THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, OR SUBFRANCHISOR, AT LEAST SEVEN DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE, OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY THE FRANCHISEE, OR SUBFRANCHISOR, WHICHEVER OCCURS FIRST, A COPY OF THE DISCLOSURE DOCUMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.

THIS DISCLOSURE DOCUMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

Registered agent in the state authorized to receive service of process: Commissioner of Securities, Department of Commerce and Consumer Affairs, Business Registration Division, Securities Compliance Branch, 335 Merchant Street, Room 203, Honolulu, Hawaii 96813

**ADDENDUM TO THE CORNER BAKERY CAFE
AREA DEVELOPMENT AGREEMENT
REQUIRED FOR HAWAII DEVELOPERS**

This Addendum to the Corner Bakery Cafe Area Development Agreement dated _____ ("Development Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Development Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Development Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of Hawaii; (B) you are a resident of the State of Hawaii; and/or (C) part or all of the Development Area is located in the State of Hawaii.
2. The following is added to the end of Section 3.A.:

Notwithstanding the foregoing, in the State of Hawaii, we will defer the payment of the Development Fee until the first Franchised Cafe required to be developed under this Agreement opens for business. Upon the opening of the first Franchised Cafe that you develop under this Agreement, you shall pay to us the Development Fee.
3. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Development Agreement.
4. Except as expressly modified by this Addendum, the Development Agreement remains unmodified and in full force and effect.

ATTEST:

CBC RESTAURANT CORP.

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

ATTEST:

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

**ADDENDUM TO THE CORNER BAKERY CAFE
FRANCHISE AGREEMENT
REQUIRED FOR HAWAII FRANCHISEES**

This Addendum to the Corner Bakery Cafe Franchise Agreement dated _____ ("Franchise Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Franchise Agreement. This Addendum is being executed because: (A) the offer or sale of the franchise to you was made in the State of Hawaii; (B) you are a resident of the State of Hawaii; and/or (C) the Franchised Cafe will be located in the State of Hawaii.
2. The following sentence is added to the end of Section 4.A.:

Notwithstanding the foregoing, in the State of Hawaii, we will defer the payment of the Initial Franchise Fee until the Franchised Cafe opens for business. Upon the opening of the Franchised Cafe, you shall pay to us the Initial Franchise Fee.
3. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.
4. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

ATTEST:

CBC RESTAURANT CORP.

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

ATTEST:

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

**ADDENDA REQUIRED BY
THE STATE OF ILLINOIS**

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURE
REQUIRED BY THE STATE OF ILLINOIS**

1. **Risk Factors, State Cover Page.** The following statement is added to the end of the first risk factor on the state cover page:

SECTION 4 OF THE ILLINOIS FRANCHISE DISCLOSURE ACT PROVIDES THAT ANY PROVISION IN A FRANCHISE AGREEMENT WHICH DESIGNATES JURISDICTION OR VENUE IN A FORUM OUTSIDE OF ILLINOIS IS VOID WITH RESPECT TO ANY CAUSE OF ACTION WHICH OTHERWISE IS ENFORCEABLE IN ILLINOIS.

The following statement is added to the end of the second risk factor on the state cover page:

NOTWITHSTANDING THE FOREGOING, ILLINOIS LAW SHALL GOVERN THE FRANCHISE AGREEMENTS.

2. **Item 5, Initial Franchise Fee.** The following section is added after the Section entitled "Initial Franchise Fee" in Item 5:

Fee Deferral

Based upon the Illinois Attorney General's Office's ("Office") review of the audited consolidated financial statements and the financial condition of our corporate parent and guarantor, Il Fornaio (attached as **Exhibit G**), the Office has imposed a deferral requirement and we must defer the payment of: **(1)** the Development Fee until the first Franchised Cafe required to be developed under the Development Agreement opens for business; and **(2)** the Initial Franchise Fee for each Franchised Cafe until the relevant Franchised Cafe opens for business. Upon the opening of the first Franchised Cafe that you develop under the Development Agreement, you must pay to us the Development Fee. Upon the opening of each Franchised Cafe, you must pay to us the Initial Franchise Fee for that Franchised Cafe.

3. **Item 17, Additional Disclosures.** The following statement is added to Item 17:

Any provision in the Development Agreement or Franchise Agreement that designates jurisdiction or venue in a forum outside of Illinois is void with respect to any action which is otherwise enforceable in Illinois. In addition, Illinois law will govern the Development Agreement and Franchise Agreement.

Each provision of these Additional Disclosures shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Illinois Franchise Disclosure Act are met independently without reference to these Additional Disclosures.

**ADDENDUM TO THE CORNER BAKERY CAFE
AREA DEVELOPMENT AGREEMENT
REQUIRED FOR ILLINOIS DEVELOPERS**

This Addendum to the Corner Bakery Cafe Area Development Agreement dated _____ ("Development Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Development Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Development Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of Illinois; (B) you are a resident of the State of Illinois; and/or (C) part or all of the Development Area is located in the State of Illinois.

2. The following is added to the end of Section 3.A.:

Notwithstanding the foregoing, in the State of Illinois, we will defer the payment of the Development Fee until the first Franchised Cafe required to be developed under this Agreement opens for business. Upon the opening of the first Franchised Cafe that you develop under this Agreement, you shall pay to us the Development Fee.

3. The following sentence is added to the end of Section 20.B.:

Notwithstanding the foregoing, Illinois law shall govern this Agreement.

4. The following sentence is added to the end of Section 20.C.:

Section 4 of the Illinois Franchise Disclosure Act provides that any provision in a franchise agreement which designates jurisdiction or venue in a forum outside of Illinois is void with respect to any cause of action which otherwise is enforceable in Illinois.

5. The following sentence is added to the end of Section 20.D.:

Section 27 of the Illinois Franchise Disclosure Act provides that causes of action under the Act must be brought within the earlier of: 3 years of the violation, 1 year after the franchisee becomes aware of the underlying facts or circumstances or 90 days after delivery to the franchisee of a written notice disclosing the violation.

6. The following sentence is added to the end of Section 23:

Section 41 of the Illinois Franchise Disclosure Act states that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of the Act is void.

7. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Development Agreement.

8. Except as expressly modified by this Addendum, the Development Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

**ADDENDUM TO THE CORNER BAKERY CAFE
FRANCHISE AGREEMENT
REQUIRED FOR ILLINOIS FRANCHISEES**

This Addendum to the Corner Bakery Cafe Franchise Agreement dated _____ ("Franchise Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Franchise Agreement. This Addendum is being executed because: (A) the offer or sale of the franchise to you was made in the State of Illinois; (B) you are a resident of the State of Illinois; and/or (C) the Franchised Cafe will be located in the State of Illinois.
2. The following sentence is added to the end of Section 4.A.:

Notwithstanding the foregoing, in the State of Illinois, we will defer the payment of the Initial Franchise Fee until the Franchised Cafe opens for business. Upon the opening of the Franchised Cafe, you shall pay to us the Initial Franchise Fee.
3. The following sentence is added to the end of Section 27.B.:

Notwithstanding the foregoing, Illinois law shall govern this Agreement.
4. The following sentence is added to the end of Section 27.C.:

Section 4 of the Illinois Franchise Disclosure Act provides that any provision in a franchise agreement which designates jurisdiction or venue in a forum outside of Illinois is void with respect to any cause of action which otherwise is enforceable in Illinois.
5. The following sentence is added to the end of Section 27.D.:

Section 27 of the Illinois Franchise Disclosure Act provides that causes of action under the Act must be brought within the earlier of: 3 years of the violation, 1 year after the franchisee becomes aware of the underlying facts or circumstances or 90 days after delivery to the franchisee of a written notice disclosing the violation.
6. The following sentence is added to the end of Section 30:

Section 41 of the Illinois Franchise Disclosure Act states that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of the Act is void.
7. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

8. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

**ADDENDA REQUIRED BY
THE STATE OF MARYLAND**

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES
REQUIRED BY THE STATE OF MARYLAND**

Item 17, Additional Disclosures. The following statements are added to Item 17:

The franchise agreements provide for termination upon bankruptcy. These provisions may not be enforceable under federal bankruptcy law.

Any provisions requiring you to sign a general release of claims against us, including upon execution of the Franchise Agreement, Development Agreement or a successor franchise agreement or transfer, does not release any claim you may have under the Maryland Franchise Registration and Disclosure Law.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

A franchisee may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

Each provision of these Additional Disclosures shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law are met independently without reference to these Additional Disclosures.

**ADDENDUM TO THE CORNER BAKERY CAFE
AREA DEVELOPMENT AGREEMENT
REQUIRED FOR MARYLAND DEVELOPERS**

This Addendum to the Corner Bakery Cafe Area Development Agreement dated _____ ("Development Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Development Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Development Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of Maryland; (B) you are a resident of the State of Maryland; and/or (C) part or all of the Development Area is located in the State of Maryland.

2. The following sentence is added to the end of Sections 9.B.(5) (Transfers by You) and 10 (General Release):

This release shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

3. The following sentence is added to the end of Section 20.C. (Choice of Forum):

Notwithstanding the foregoing, you may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

4. The following sentence is added to the end of Section 20.D. (Limitation of Claims):

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

5. The following sentence is added to the end of Section 23 (Representations):

Section 14-226 of the Maryland Franchise Registration and Disclosure Law prohibits a franchisor from requiring a prospective franchisee to assent to any release, estoppel, or waiver of liability as a condition of purchasing a franchise. Representations in this Agreement are not intended to, nor shall they act as a release, estoppel, or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

6. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Development Agreement.

7. Except as expressly modified by this Addendum, the Development Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

|

|

**ADDENDUM TO THE CORNER BAKERY CAFE
FRANCHISE AGREEMENT
REQUIRED FOR MARYLAND FRANCHISEES**

This Addendum to the Corner Bakery Cafe Franchise Agreement dated _____ ("Franchise Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Franchise Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of Maryland; (B) you are a resident of the State of Maryland; and/or (C) the Franchised Cafe will be located in the State of Maryland.

2. The following sentence is added to the end of Sections 2.B.(5) (Successor Franchise Agreement), 15.B.(5) (Transfers by You) and 16 (General Release):

This release shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

3. The following sentence is added to the end of Section 27.C. (Choice of Forum):

Notwithstanding the foregoing, you may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

4. The following sentence is added to the end of Section 27.D. (Limitation of Claims):

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

5. The following sentence is added to the end of Section 30 (Representations):

Section 14-226 of the Maryland Franchise Registration and Disclosure Law prohibits a franchisor from requiring a prospective franchisee to assent to any release, estoppel, or waiver of liability as a condition of purchasing a franchise. Representations in this Agreement are not intended to, nor shall they act as a release, estoppel, or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

6. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

7. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

ADDITIONAL DISCLOSURES REQUIRED BY

THE STATE OF MICHIGAN

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES
REQUIRED BY THE STATE OF 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.

Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

- (a) A prohibition of the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years; and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

(i) The 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 franchisee 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 franchisee 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 THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE ATTORNEY GENERAL.

Any questions regarding this Notice shall be directed to the Department of Attorney General, Consumer Protection Division, 670 Law Building, 525 West Ottawa Street, Lansing, Michigan 48913, (517) 373-7117.

**ADDENDA REQUIRED BY
THE STATE OF MINNESOTA**

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES
REQUIRED BY THE STATE OF MINNESOTA**

1. **Notice of Termination.** The following statement is added to Item 17:

With respect to licenses governed by Minnesota law, we will comply with Minnesota Statute § 80C.14, subdivisions 3, 4, and 5 which requires, except in certain specified cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the franchise agreements.

2. **Choice of Forum and Law.** The following statement is added to the cover page and Item 17:

Minnesota Statute § 80C.21 and Minnesota Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the disclosure document or agreements can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

3. **General Release.** The following statement is added to Item 17:

Minnesota Rule 2860.4400D prohibits us from requiring you to assent to a release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statute §§ 80C.01 - 80C.22.

4. **Waiver of Right to Jury Trial and Consent to Liquidated Damages or Termination Penalties:** The following statement is added to Item 17:

Minnesota Rule 2860.4400J, among other things, prohibits us from requiring you to waive your rights to a jury trial or to consent to liquidated damages, termination penalties, or judgment notes; provided, that this part will not bar an exclusive arbitration clause.

**ADDENDUM TO THE CORNER BAKERY CAFE
AREA DEVELOPMENT AGREEMENT
REQUIRED FOR MINNESOTA DEVELOPERS**

This Addendum to the Corner Bakery Cafe Area Development Agreement dated _____ ("Development Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" "your"), a _____, is entered into simultaneously with the execution of the Development Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into, the Development Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of Minnesota; (B) you are a resident of the State of Minnesota; and/or (C) part or all of the Development Area is located in the State of Minnesota.
2. The following sentence is added to the end of Sections 9.B.(5) and 10:

Notwithstanding the foregoing, you will not be required to assent to a release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statute §§ 80C.01 - 80C.22.
3. Section 11.B.(2)(i) is deleted and replaced with the following statement:

(i) your use or duplication of the System or any part of the System in any other business would constitute an unfair method of competition, for which we would be entitled to all legal and equitable remedies, including the right to seek injunctive relief.
4. The following sentence is added to the end of Section 12.B.:

With respect to franchises governed by Minnesota law, we will comply with Minnesota Statute § 80C.14, Subdivisions 3, 4, and 5, which require, except in certain cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the franchise agreements.
5. The following sentences are added to the end of Sections 20.B.-C.:

Minnesota Statute § 80C.21 and Minnesota Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the disclosure document or agreements can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.
6. The following sentence is added to the end of Section 20.D.:

Minnesota Statute § 80C.17, Subdivision 5, provides that no action may be commenced pursuant to that Section more than three years after the cause of action accrues.
7. The third sentence of Section 20.H. is deleted.

8. The second sentence of Section 22.F. is deleted and replaced with the following sentence:

Therefore, you agree that, in the event of a breach or threatened breach of any of the terms of this Agreement by you, we shall be entitled to seek injunctive relief (both preliminary and permanent) restraining that breach and/or to specific performance. A court will determine if a bond or security must be posted.

9. Section 23.L. is deleted.
10. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Development Agreement.
11. Except as expressly modified by this Addendum, the Development Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

**ADDENDUM TO THE CORNER BAKERY CAFE
FRANCHISE AGREEMENT
REQUIRED FOR MINNESOTA FRANCHISEES**

This Addendum to the Corner Bakery Cafe Franchise Agreement dated _____ ("Franchise Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into, the Franchise Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of Minnesota; (B) you are a resident of the State of Minnesota; and/or (C) the Franchised Cafe will be located in the State of Minnesota.

2. The following sentence is added to the end of Sections 2.B.(5), 15.B.(5) and 16:

Notwithstanding the foregoing, you will not be required to assent to a release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statute §§ 80C.01 - 80C.22.

3. The following sentence is added to the end of Section 2.B.:

With respect to franchises governed by Minnesota law, we will comply with Minnesota Statute § 80C.14, Subdivisions 3, 4, and 5, which requires, except in certain cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of franchise agreements.

4. Section 17.B.(2)(i) is deleted and replaced with the following statement:

your use or duplication of the System or any part of the System in any other business would constitute an unfair method of competition, for which we would be entitled to all legal and equitable remedies, including the right to seek injunctive relief.

5. The following sentence is added to the end of Sections 17.C.(2)(b) and 18.E.:

Any provision that requires you to consent to liquidated damages, termination penalties, or judgment notes may not be enforceable under Minnesota law.

6. The following sentence is added to the end of Section 18:

With respect to franchises governed by Minnesota law, we will comply with Minnesota Statute § 80C.14, Subdivisions 3, 4, and 5, which requires, except in certain cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of franchise agreements.

7. The following sentences are added to the end of Sections 27.B.-C.:

Minnesota Statute § 80C.21 and Minnesota Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the disclosure document or agreements can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

8. The following sentence is added to the end of Section 27.D.:

Minnesota Statute § 80C.17, Subdivision 5, provides that no action may be commenced pursuant to that Section more than three years after the cause of action accrues.

9. The third sentence of Section 27.H. is deleted.

10. The second sentence of Section 29.F. is deleted and replaced with the following sentence:

Therefore, you agree that, in the event of a breach or threatened breach of any of the terms of this Agreement by you, we shall be entitled to seek injunctive relief (both preliminary and permanent) restraining that breach and/or to specific performance. A court will determine if a bond or security must be posted.

11. Section 30.K. is deleted.

12. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

13. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

ATTEST:

CBC RESTAURANT CORP.

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

ATTEST:

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

**ADDENDA REQUIRED BY
THE STATE OF NEW YORK**

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES
REQUIRED BY THE STATE OF NEW YORK**

1. Item 3, Additional Disclosure. Item 3 is ~~deleted and replaced~~supplemented with the following:

Other than the matters identified in Item 3, Neither we, nor our parent or any of our predecessors, nor any person identified in Item 2 above, nor any affiliate offering franchises under our trademark, has any administrative, criminal, or a material civil or arbitration action pending against him alleging a violation of any franchise law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property, or comparable allegations.

Neither we, nor our parent or any of our predecessors, nor any person identified in Item 2 above, nor any affiliate offering franchises under our trademark, has been convicted of a felony or pleaded nolo contendere to any other felony charge or, during the ten-year period immediately preceding the application for registration, been convicted of a misdemeanor or pleaded nolo contendere to any misdemeanor charge or been found liable in an arbitration proceeding or a civil action by final judgment, or been the subject of any other material complaint or legal or arbitration proceeding if such misdemeanor conviction or charge, civil action, complaint, or other such proceeding involved a violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property, or comparable allegation.

Neither we, nor our parent or any of our predecessors, nor any person identified in Item 2 above, nor any affiliate offering franchises under our trademark, is subject to any currently effective injunctive or restrictive order or decree relating to franchises, or under any federal, state, or Canadian 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; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

~~Accordingly, no litigation is required to be disclosed in this disclosure document.~~

2. Item 4, Additional Disclosure. Item 4 is ~~deleted and replaced~~supplemented with the following:

Other than the matters identified in Item 4, neither we nor our parent nor any of our predecessors, affiliates, or officers, 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 one year after the officer or general partner of the franchisor held this position in the company or partnership.

3. Item 17, Additional Disclosures. The following statements are added to Item 17:

We will not assign our rights under the Development Agreement or the Franchise Agreement, except to an assignee who in our good faith and judgment is willing and able to assume our obligations under the Development Agreement or the Franchise Agreement.

The New York Franchises Law requires that New York law govern any cause of action which arises under the New York Franchises Law.

The New York General Business Law, Article 33, Sections 680 through 695 may supersede any provision of the Development Agreement or the Franchise Agreement inconsistent with that law.

You must sign a general release when you enter the Development Agreement and the Franchise Agreement, upon entering into a successor Franchise Agreement, and in connection with any transfer under those Agreements. These provisions may not be enforceable under New York law.

Our right to obtain injunctive relief exists only after proper proofs are made and the appropriate authority has granted such relief.

Each provision of these Additional Disclosures shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of New York General Business Law, Article 33, Section 680 through 695, and of the Codes, Rules, and Regulations of the State of New York, Title 13, Chapter VII, Section 200.1 through 201.16, are met independently without reference to these Additional Disclosures.

**ADDENDUM TO THE CORNER BAKERY CAFE
AREA DEVELOPMENT AGREEMENT
REQUIRED FOR NEW YORK DEVELOPERS**

This Addendum to the Corner Bakery Cafe Area Development Agreement dated _____ ("Development Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Development Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into, the Development Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of New York; (B) you are a resident of the State of New York; and/or (C) part or all of the Development Area is located in the State of New York.
2. Any provision in the Development Agreement that is inconsistent with the New York General Business Law, Article 33, Sections 680 - 695 may not be enforceable.
3. The following sentence is added to Section 8:

We will not assign our rights under this Agreement, except to an assignee who in our good faith and judgment is willing and able to assume our obligations under this Agreement.
4. The following sentence is added to the end of Sections 9.B.(5) and 10 :

Any provision in this Agreement requiring your to sign a general release of claims against us does not release any claim you may have under New York General Business Law, Article 33, Sections 680-695.
5. The following sentence is added to the end of Sections 11.B.(2)(i) and 22.F.:

Our right to obtain injunctive relief exists only after proper proofs are made and the appropriate authority has granted such relief.
6. The following sentence is added to the end of Section 20.B.:

Notwithstanding the foregoing, the New York Franchises Law shall govern any claim arising under that law.
7. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Development Agreement.

**[THE REST OF THIS PAGE IS
INTENTIONALLY LEFT BLANK]**

8. Except as expressly modified by this Addendum, the Development Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

**ADDENDUM TO THE CORNER BAKERY CAFE
FRANCHISE AGREEMENT
REQUIRED FOR NEW YORK FRANCHISEES**

This Addendum to the Corner Bakery Cafe Franchise Agreement dated _____ ("Franchise Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into, the Franchise Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of New York; (B) you are a resident of the State of New York; and/or (C) the Franchised Cafe will be located in the State of New York.
2. Any provision in the Franchise Agreement that is inconsistent with the New York General Business Law, Article 33, Sections 680 – 695, may not be enforceable.
3. The following sentence is added to the end of Sections 2.B.(5), 15.B.(5) and 16:

Any provision in this Agreement requiring you to sign a general release of claims against us does not release any claim you may have under New York General Business Law, Article 33, Sections 680-695.
4. The following sentence is added to the end of Sections 17.B.(2)(i) and 29.F.:

Our right to obtain injunctive relief exists only after proper proofs are made and the appropriate authority has granted such relief.
5. The following sentence is added to Section 14:

We will not assign our rights under this Agreement, except to an assignee who in our good faith and judgment is willing and able to assume our obligations under this Agreement.
6. The following sentence is added to the end of Section 27.B.:

Notwithstanding the foregoing, the New York Franchises Law shall govern any claim arising under that law.
7. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

8. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

**ADDENDA REQUIRED BY
THE STATE OF NORTH DAKOTA**

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES
REQUIRED BY THE STATE OF NORTH DAKOTA**

1. **Item 5, Initial Franchise Fee.** The following section is added after the Section entitled "Initial Franchise Fee" in Item 5:

Fee Deferral

Based upon the review of the audited consolidated financial statements of our corporate parent, Il Fornaio (attached as Exhibit G) by the North Dakota Securities Department ("Department"), the Department requires that we defer the payment of: (1) the Development Fee until the first Franchised Cafe required to be developed under the Development Agreement opens for business; and (2) the Initial Franchise Fee for each Franchised Cafe until the relevant Franchised Cafe opens for business. Upon the opening of the first Franchised Cafe that you develop under the Development Agreement, you must pay to us the Development Fee. Upon the opening of each Franchised Cafe, you must pay to us the Initial Franchise Fee for that Franchised Cafe.

2. **Item 17, Additional Disclosures.** The following statements are added to Item 17:

Pursuant to the North Dakota Franchise Investment Law, any provision requiring franchisees to consent to the jurisdiction of courts outside North Dakota or to consent to the application of laws of a state other than North Dakota is void.

You are not required to release any claims you might have against us under the North Dakota Franchise Investment Law.

Covenants not to compete upon termination or expiration of the franchise agreements are generally not enforceable in the State of North Dakota, except in certain instances as provided by law.

North Dakota law prohibits us from requiring you to consent to pay liquidated damages.

**ADDENDUM TO THE CORNER BAKERY CAFE
AREA DEVELOPMENT AGREEMENT
REQUIRED FOR NORTH DAKOTA DEVELOPERS**

This Addendum to the Corner Bakery Cafe Area Development Agreement dated _____ ("Development Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Development Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into, the Development Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of North Dakota; (B) you are a resident of the State of North Dakota; and/or (C) part or all of the Development Area is located in the State of North Dakota.

2. The following is added to the end of Section 3.A.:

Notwithstanding the foregoing, in the State of North Dakota, we will defer the payment of the Development Fee until the first Franchised Cafe required to be developed under this Agreement opens for business. Upon the opening of the first Franchised Cafe that you develop under this Agreement, you shall pay to us the Development Fee.

3. The following sentence is added to the end of Section 11.C.:

Covenants not to compete are generally considered unenforceable in the State of North Dakota.

4. The following sentence is added to the end of Sections 20.B.-C.:

Pursuant to the North Dakota Franchise Investment Law, any provision requiring franchisees to consent to the jurisdiction of courts outside North Dakota or to consent to the application of laws of a state other than North Dakota is void.

5. The following sentence is added to the end of Section 20.D.:

Notwithstanding the foregoing, the statute of limitations under North Dakota law applies.

6. Section 20.H. is deleted.

7. Section 23.L. is deleted.

8. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Development Agreement.

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

9. Except as expressly modified by this Addendum, the Development Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Title: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Title: _____

Date: _____

By: _____

Print Name: _____

Title: _____

Date: _____

**ADDENDUM TO THE CORNER BAKERY CAFE
FRANCHISE AGREEMENT
REQUIRED FOR NORTH DAKOTA FRANCHISEES**

This Addendum to the Corner Bakery Cafe Franchise Agreement dated _____ ("Franchise Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into, the Franchise Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of North Dakota; (B) you are a resident of the State of North Dakota; and/or (C) the Franchised Cafe will be located in the State of North Dakota.
2. Section 2.B.(5) is deleted.
3. The following sentence is added to the end of Section 4.A.:

Notwithstanding the foregoing, in the State of North Dakota, we will defer the payment of the Initial Franchise Fee until the Franchised Cafe opens for business. Upon the opening of the Franchised Cafe, you shall pay to us the Initial Franchise Fee.
4. Section 4.H. is deleted and replaced with the following:

The prevailing party in any action to enforce the terms of this Agreement is entitled to recover all costs and expenses, including attorney's fees.
5. The following sentence is added to the end of Sections 17.C.(2)(b) and 18.E.:

North Dakota law prohibits us from requiring you to consent to pay liquidated damages.
6. The following sentence is added to the end of Section 17.C.:

Covenants not to compete are generally considered unenforceable in the State of North Dakota.
7. The following sentence is added to the end of Sections 27.B.-C.:

Pursuant to the North Dakota Franchise Investment Law, any provision requiring franchisees to consent to the jurisdiction of courts outside North Dakota or to consent to the application of laws of a state other than North Dakota is void.
8. The following sentence is added to the end of Section 27.D.:

Notwithstanding the foregoing, the statute of limitations under North Dakota law applies.
9. Section 27.H. is deleted.

10. Section 30.K. is deleted.

11. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

12. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

By: _____

Print Name: _____

Title: _____

Date: _____

**ADDENDA REQUIRED BY
THE STATE OF RHODE ISLAND**

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURE
REQUIRED BY THE STATE OF RHODE ISLAND**

Item 17. Additional Disclosure. The following statement is added to Item 17:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that: "A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act."

The provision of this Additional Disclosure shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Rhode Island Franchise Investment Law are met independently without reference to this Additional Disclosure.

**ADDENDUM TO THE CORNER BAKERY CAFE
AREA DEVELOPMENT AGREEMENT
REQUIRED FOR RHODE ISLAND DEVELOPERS**

This Addendum to the Corner Bakery Cafe Area Development Agreement dated _____ ("Development Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Development Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Development Agreement. This Addendum is being executed because: (A) the offer or sale of the franchise to you was made in the State of Rhode Island; (B) you are a resident of the State of Rhode Island; and/or (C) part or all of the Development Area is located in the State of Rhode Island.
2. The following language is added to Section 20.B.-C.:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that "A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act."
3. Any capitalized terms that are not defined in this Addendum shall have the same meaning given them in the Development Agreement.
4. Except as expressly modified by this Addendum, the Development Agreement remains unmodified and in full force and effect.

ATTEST:

CBC RESTAURANT CORP.

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

ATTEST:

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

**ADDENDUM TO THE CORNER BAKERY CAFE
FRANCHISE AGREEMENT
REQUIRED FOR RHODE ISLAND FRANCHISEES**

This Addendum to the Corner Bakery Cafe Franchise Agreement dated _____ ("Franchise Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Franchise Agreement. This Addendum is being executed because: (A) the offer or sale of the franchise to you was made in the State of Rhode Island; (B) you are a resident of the State of Rhode Island; and/or (C) the Franchised Cafe will be located in the State of Rhode Island.
2. The following language is added to Section 27.B.-C.:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that "A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act."
3. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.
4. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

ATTEST:

CBC RESTAURANT CORP.

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

ATTEST:

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

**ADDENDA REQUIRED BY
THE COMMONWEALTH OF VIRGINIA**

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURE
REQUIRED BY THE COMMONWEALTH OF VIRGINIA**

Item 5, Initial Franchise Fee. The following section is added after the Section entitled "Initial Franchise Fee" in Item 5:

Fee Deferral

"The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the initial franchise fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise agreement."

The provision of this Additional Disclosure shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Virginia Retail Franchising Act are met independently without reference to this Additional Disclosure.

**ADDENDUM TO THE CORNER BAKERY CAFE
AREA DEVELOPMENT AGREEMENT
REQUIRED FOR VIRGINIA DEVELOPERS**

This Addendum to the Corner Bakery Cafe Area Development Agreement dated _____ ("Development Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Development Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Development Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the Commonwealth of Virginia; (B) you are a resident of the Commonwealth of Virginia; and/or (C) part or all of the Development Area is located in the Commonwealth of Virginia.

2. The following is added to the end of Section 3.A.:

Notwithstanding the foregoing, the Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the Development Fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the Development Agreement agreement. We will defer the payment of the Development Fee until the first Franchised Cafe required to be developed under this Agreement opens for business. Upon the opening of the first Franchised Cafe that you develop under this Agreement, you shall pay to us the Development Fee.

3. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Development Agreement.

4. Except as expressly modified by this Addendum, the Development Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

**ADDENDUM TO THE CORNER BAKERY CAFE
FRANCHISE AGREEMENT
REQUIRED FOR VIRGINIA FRANCHISEES**

This Addendum to the Corner Bakery Cafe Franchise Agreement dated _____ ("Franchise Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Franchise Agreement. This Addendum is being executed because: (A) the offer or sale of the franchise to you was made in the Commonwealth of Virginia; (B) you are a resident of the Commonwealth of Virginia; and/or (C) the Franchised Cafe will be located in the Commonwealth of Virginia.

2. The following sentence is added to the end of Section 4.A.:

Notwithstanding the foregoing, the Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the initial franchise fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise agreement. We will defer the payment of the Initial Franchise Fee until the Franchised Cafe opens for business. Upon the opening of the Franchised Cafe, you shall pay to us the Initial Franchise Fee.

3. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

4. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

**ADDENDA REQUIRED BY
THE STATE OF WASHINGTON**

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES
REQUIRED BY THE STATE OF WASHINGTON**

Item 5, Initial Fees. The following section is added after the Section entitled "Initial Fees" in Item 5:

Deferral of Fees

Based upon the review of the audited consolidated financial statements of our corporate parent, Il Fornaio (attached as **Exhibit G**), by the Securities Administrator for the Washington Department of Financial Institutions, that Department has required that, we defer the payment of: **(1)** the Development Fee until the first Franchised Cafe required to be developed under the Development Agreement opens for business; and **(2)** the Initial Franchise Fee for each Franchised Cafe until the relevant Franchised Cafe opens for business. Upon the opening of the first Franchised Cafe that you develop under the Development Agreement, you must pay to us the Development Fee. Upon the opening of each Franchised Cafe, you must pay to us the Initial Franchise Fee for that Franchised Cafe.

Each provision of these Additional Disclosures shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Washington Franchise Investment Protection Act are met independently without reference to these Additional Disclosures.

**ADDENDUM TO THE CORNER BAKERY CAFE
AREA DEVELOPMENT AGREEMENT
REQUIRED FOR WASHINGTON DEVELOPERS**

This Addendum to the Corner Bakery Cafe Area Development Agreement dated _____ ("Development Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Development Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into, the Development Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of Washington; (B) you are a resident of the State of Washington; and/or (C) part or all of the Development Area is located in the State of Washington.

2. The following is added to the end of Section 3.A.:

Notwithstanding the foregoing, in the State of Washington, we will defer the payment of the Development Fee until the first Franchised Cafe required to be developed under this Agreement opens for business. Upon the opening of the first Franchised Cafe that you develop under this Agreement, you shall pay to us the Development Fee.

3. The state of Washington has a statute, the Washington Franchise Investment Protection Act, RCW 19.100.180 ("Act"), which may supersede this Agreement in your relationship with us including the areas of termination and renewal of your franchise. There also may be court decisions which may supersede this Agreement in your relationship with us including the areas of termination and renewal of your franchise.
4. In the event of a conflict of laws, the provisions of the Act shall prevail.
5. A release or waiver of rights executed by you shall not include rights under the Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.
6. Transfer fees are collectable to the extent that they reflect our reasonable estimated or actual costs in effecting a transfer.
7. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Development Agreement.

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

8. Except as expressly modified by this Addendum, the Development Agreement remains unmodified and in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

**ADDENDUM TO THE CORNER BAKERY CAFE
FRANCHISE AGREEMENT
REQUIRED FOR WASHINGTON FRANCHISEES**

This Addendum to the Corner Bakery Cafe Franchise Agreement dated _____ ("Franchise Agreement") between CBC Restaurant Corp. ("CBC", "we", or "us"), a Delaware corporation, and _____ ("you" or "your"), a _____, is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into, the Franchise Agreement. This Addendum is being executed because: (A) the offer or sale of a franchise to you was made in the State of Washington; (B) you are a resident of the State of Washington; and/or (C) the Franchised Cafe will be located in the State of Washington.
2. The following sentence is added to the end of Section 4.A.:

Notwithstanding the foregoing, in the State of Washington, we will defer the payment of the Initial Franchise Fee until the Franchised Cafe opens for business. Upon the opening of the Franchised Cafe, you shall pay to us the Initial Franchise Fee.
3. The state of Washington has a statute, the Washington Franchise Investment Protection Act, RCW 19.100.180 ("Act"), which may supersede this Agreement in your relationship with us including the areas of termination and renewal of your franchise. There also may be court decisions which may supersede this Agreement in your relationship with us including the areas of termination and renewal of your franchise.
4. In the event of a conflict of laws, the provisions of the Act shall prevail.
5. A release or waiver of rights executed by you shall not include rights under the Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.
6. Transfer fees are collectable to the extent that they reflect our reasonable estimated or actual costs in effecting a transfer.
7. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

[THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

8. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified in full force and effect.

ATTEST:

By: _____

Print Name: _____

Title: _____

CBC RESTAURANT CORP.

By: _____

Print Name: _____

Title: _____

Date: _____

ATTEST:

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

EXHIBIT J

COMPLIANCE QUESTIONNAIRE

**QUESTIONNAIRE TO BE COMPLETED BEFORE
SIGNING A CORNER BAKERY CAFE AGREEMENT**

You are preparing to enter into a Corner Bakery Franchise and/or Area Development Agreement with CBC Restaurant Corp. ("Corner Bakery", "we," or "us"). The purpose of this Questionnaire is to confirm that you understand the terms of the agreements and that no unauthorized statements or promises have been made to you. Please review each of the following questions and statements carefully and provide honest and complete responses to each.

1. When and where did you have your first face-to-face meeting with a Corner Bakery representative?

Approximate date of first meeting: _____

Place of meeting: _____

2. Which Corner Bakery representative(s) have you been dealing with?

Name(s): _____

3. Have you received the Corner Bakery Franchise Disclosure document (FDD)?

Yes _____ No _____

4. Did you give us a signed receipt for the copy of the FDD that we furnished to you?

Yes _____ No _____ If yes, on what date? _____

5. Have Corner Bakery's representatives answered all of your questions regarding the FDD, the Corner Bakery Cafe Franchise Agreement and the Corner Bakery Cafe Area Development Agreement?

Yes _____ No _____

If "No", what parts of the FDD and/or the Agreements do you not understand? (Attach additional pages, if necessary.)

6. Have you discussed the FDD, the Agreements, and the benefits and risks of a Corner Bakery franchise with an attorney, accountant, or other professional advisor?

Yes _____ No _____

If "Yes", name and profession of advisor: _____

If "No", do you wish to have more time to do so?

Yes _____ No _____

7. Other than the material provided in Item 19 of the FDD, have any of Corner Bakery's employees (or any other person purporting to speak on behalf of Corner Bakery) made any statement or representation to you (oral, written, or visual) regarding:

- a. The sales or gross revenues that Corner Bakery Cafes have generated or will generate?

Yes _____ No _____

- b. The profits that Corner Bakery Cafes or our franchisees have earned or may earn?

Yes _____ No _____

8. If your answer to any part of Question 7 is "yes," who made the statement or representation, when, and where? Please provide full details in the following space. (Attach additional pages, if necessary.)

9. Please think about the statements or promises made to you by our employees (or by any other person purporting to speak on behalf of Corner Bakery) concerning the advertising, marketing, training, support, or assistance that we will furnish to you. Were any such statements or promises contrary to, or different from, the information contained in the FDD?

Yes _____ No _____

10. If you answered "Yes" to Question 9, please provide full details in the following space.
(Attach additional pages, If necessary.)

11. In what state do you reside? _____

12. In what state do you intend to operate the Corner Bakery Cafe(s)? _____

* * *

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.

FRANCHISE APPLICANT

Date: _____

RECEIPT

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

If CBC Restaurant Corp. offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make payment to, CBC or its affiliate in connection with the proposed sale or sooner if required by applicable state law. New York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Iowa requires that we give you this disclosure document at the earlier of the first personal meeting or 14 days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan and Washington require that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

~~Now York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan and Washington require that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.~~

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

The franchisor is CBC Restaurant Corp., located at 12700 Park Central Drive, Suite 1300, Dallas, Texas 75251. Its telephone number is (972) 619-4100.

Issuance date: ~~March 31, 2011, as amended June 10, 2011 and July 10, 2011~~ May 18, 2012.

The franchise seller for this offering is _____ and ~~Crslg Sherwood,~~ Director Jonathan Benjamin, Vice President of Franchise Development Sales, CBC Restaurant Corp., located at 12700 Park Central Drive, Suite 1300, Dallas, Texas 75251 or (972) 619-4138 4109.

CBC Restaurant Corp. authorizes the respective state agencies identified on Exhibit B to receive service of process for it in the particular state.

I received a disclosure document dated ~~March 31, 2011, as amended June 10, 2011 and July 10, 2011~~ May 18, 2012 (the effective dates of this disclosure document in states with franchise registration laws are listed on the State Cover Page) that included the following exhibits:

- | | |
|-------------------------------------|--|
| A. List of State Administrators | F. Confidentiality Agreement |
| B. Agents for Service of Process | G. List of Franchised Locations |
| C. Area Development Agreement | H. Financial Statements |
| D. Franchise Agreement | I. Additional Disclosures Required by Certain States |
| E. General Release | J. <u>Compliance Questionnaire</u> |
| F. <u>Confidentiality Agreement</u> | |

Date of Receipt: _____

Signature

Print Name

Company Name

Street Address

Telephone Number

City, State

Zip Code

TO BE RETAINED BY YOU

RECEIPT

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

If CBC Restaurant Corp. offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make payment to, CBC or its affiliate in connection with the proposed sale or sooner if required by applicable state law. New York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Iowa requires that we give you this disclosure document at the earlier of the first personal meeting or 14 days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan and Washington require that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

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

The franchisor is CBC Restaurant Corp., located at 12700 Park Central Drive, Suite 1300, Dallas, Texas 75251. Its telephone number is (972) 619-4100.

Issuance date: ~~March 31, 2011, as amended June 10, 2011 and July 10, 2011~~ May 18, 2012.

The franchise seller for this offering is _____ and Craig Shorwood, ~~Director~~ Jonathan Benjamin, Vice President of Franchise Development ~~Salas~~, CBC Restaurant Corp., located at 12700 Park Central Drive, Suite 1300, Dallas, Texas 75251 or (972) 619-4438 4109.

CBC Restaurant Corp. authorizes the respective state agencies identified on Exhibit B to receive service of process for it in the particular state.

I received a disclosure document dated ~~March 31, 2011, as amended June 10, 2011 and July 10, 2011~~ May 18, 2012 (the effective dates of this disclosure document in states with franchise registration laws are listed on the State Cover Page) that included the following exhibits:

- | | |
|-------------------------------------|--|
| A. List of State Administrators | F. Confidentiality Agreement |
| B. Agents for Service of Process | G. List of Franchised Locations |
| C. Area Development Agreement | H. Financial Statements |
| D. Franchise Agreement | I. Additional Disclosures Required by Certain States |
| E. General Release | J. <u>Compliance Questionnaire</u> |
| F. <u>Confidentiality Agreement</u> | |

Date of Receipt: _____

Signature

Print Name

Company Name

Street Address

Telephone Number

City, State

Zip Code

TO BE RETURNED TO CBC