

## DRNK COFFEE + TEA FRANCHISING, LLC

A California Limited Liability Company  
350 S. Grand Ave., Suite 3070  
Los Angeles, CA 90071  
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[www.qwenchjuice.com](http://www.qwenchjuice.com)



The franchisee will operate a DRNK coffee + tea (DRNK) franchise, a QWENCH juice bar (QWENCH) franchise or a co-branded franchise. DRNK coffee + tea offers a diverse menu of espressos, hot and cold coffees, teas and freshly made sandwiches and other food items, beverages, and merchandise compatible with our concept. QWENCH juice bar features freshly prepared juices and smoothies, fruit bowls, and other related food items.

The total investment necessary to begin operation of a DRNK coffee + tea franchise ranges from \$253,150 to \$434,000. The total investment necessary to begin operation of a QWENCH juice bar franchise is \$278,150 to \$521,400. The total investment necessary to begin operation of a co-branded franchise is \$407,250 to \$637,600. These total investments include a franchisee fee of \$40,000 that must be paid to us or an affiliate and \$900 to \$1,200 for required coffee inventory from our affiliate DRNK Coffee + Tea, LLC.

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

You may wish to receive your disclosure document in another format that is convenient for you. To discuss the availability of disclosures in different formats, contact Amir Atighehchi, 350 S. Grand Ave. Suite 3070, Los Angeles, CA 90071 and (323) 825-5373 or [franchising@drnkqwench.com](mailto:franchising@drnkqwench.com).

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. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Date of Issuance: April 22, 2019.

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## STATE COVER PAGE

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Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling 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 the franchisor, or about franchising in Franchisee's state. If you learn that anything in this disclosure document is untrue, contact the Federal Trade Commission and the state administrators listed on Exhibit A.

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 Franchisee buy this franchise:

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY ARBITRATION ONLY IN CALIFORNIA. OUT-OF-STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE WITH US IN CALIFORNIA THAN IN YOUR OWN STATE.
2. THE FRANCHISE AGREEMENT STATES THAT THE LAWS OF THE STATE OF CALIFORNIA LAW GOVERN THE AGREEMENT, AND THAT 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.

We use the services of one or more FRANCHISE BROKERS or referral sources to assist us in selling our franchise. A franchise broker or referral source is our agent and represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should be sure to do your own investigation of this franchise.

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

## FRANCHISE DISCLOSURE DOCUMENT EFFECTIVE DATES

The following states require 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, or otherwise effective in the following states having franchise registration and disclosure (or business opportunity\*) laws, as of the dates listed:

State	Effective Date
California	May 15, 2018
Illinois	August 24, 2018
Indiana	Pending
Maryland	August 20, 2018
Michigan	April 20, 2018
New York	October 26, 2018
Virginia	May 10, 2018

In all states not requiring registration, the effective date of this franchise disclosure document is the issuance date of April 22, 2019.

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### EXHIBITS

- A. LIST OF STATE ADMINISTRATORS
- B. LIST OF STATE AGENTS FOR SERVICE OF PROCESS
- C. FRANCHISE AGREEMENT
- D. TABLE OF CONTENTS OF OPERATIONS MANUAL
- E. FINANCIAL STATEMENTS
- F. LIST OF CURRENT FRANCHISEES
- G. FRANCHISEE DISCLOSURE QUESTIONNAIRE
- H. INDIANA ADDENDUM

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

To simplify the language, this disclosure document uses “we,” “us” or “our” to mean DRNK Coffee + Tea Franchising, LLC, the franchisor. “You” or “your” means the individual, corporation, or other entity that buys a DRNK coffee + tea, QWENCH juice bar, or co-branded franchise.

### **Franchisor, Parent and Affiliates**

We are a California limited liability company, organized June 17, 2015. Our principal business address is 350 S Grand Ave., Suite 3070, Los Angeles, CA 90071 and our telephone number is (323) 825-5373. We conduct business under the names DRNK coffee + tea and QWENCH juice bar. We do not conduct business under any other name.

Our affiliate DRNK Coffee + Tea, LLC (“DCT”), with a principal business address of 350 S Grand Ave., Suite 3070, Los Angeles, CA 90071. DRNK coffee + tea owns and operates company-owned outlets, has leased sites for outlets and subleased these sites to franchisees, and also provides coffee, other food and beverage items, and certain consulting services to our franchisees. Our affiliate DCT Real Estate, LLC (“DCT Real Estate”) was formed for the purpose of leasing sites for franchisee-owned outlets and subleasing them to franchisees, and for providing real estate management and consulting services to DCT and to our franchisees.

We do not have a parent company.

### **Agent for Service of Process**

Our agent for service of process in California is Frank Taboada who can be reached at his principal business address of 4212 E. Los Angeles Ave., Suite 3158, Simi Valley, CA 93063. Our agents for service of process in all other states are listed on Exhibit B.

### **Prior Experience**

We were formed for the purpose of franchising the business you will be operating. The first DRNK coffee + tea store was opened in October 2013 in Los Angeles, California and the first QWENCH juice bar was opened in April 2015 in Los Angeles, California. We do not operate a business of the type being franchised.

We were formed as a new limited liability company in 2015 and have no other business activity. The business system is created from the business experience of the persons listed in Item 2.

Neither we nor our affiliates have offered franchises in other lines of business.

### **The Businesses We Offer**

We offer three franchise models: DRNK coffee + tea, QWENCH juice bar and co-branded concepts. Each is a traditional quick-service beverage concept. If you purchase a DRNK franchise, you will be operating a business offering a diverse menu of espressos, hot and cold coffees, teas and freshly made sandwiches and other food items, beverages, and merchandise compatible with our concept. If you purchase a QWENCH franchise, you will be operating a business offering freshly prepared juices and smoothies, fruit bowls, and other related items. If you purchase a co-branded DRNK/QWENCH franchise, you will be operating a business that combines the DRNK and QWENCH concepts and offerings.

DRNK, QWENCH, and co-branded DRNK/QWENCH stores are typically located in malls or attached to strip malls since these stores rely on a high volume of customers. The general market for the products and services that you will offer is typically adults who are active with a healthy lifestyle aged 25-75. This is a well-developed market that operates year-round, and typically operates in the retail products and services sector. We operate in a highly competitive market, with the primary direct competition being other quick service beverage shops.

## **Applicable Regulations**

You must comply with federal, state, and local health and environmental safety regulations. You must also comply with all the laws, codes, ordinances, and regulation that normally apply to retail businesses. You must also allow the inspection of facilities to ensure compliance with proper practices and adequacy of the location. State or local government health departments or agencies inspect restaurants and other retail food facilities to ensure compliance with safe food handling practices and adequacy of kitchen facilities. You should investigate the application of these laws further.

## **ITEM 2: BUSINESS EXPERIENCE**

### **Chief Executive Officer: Thomas Nariman**

Mr. Nariman has served as CEO of DRNK Coffee + Tea Franchising, LLC since its formation in June 2015. He has also served as CEO of DRNK Coffee + Tea, LLC since its formation in July 2013. From June 2010 until June 2013 he served as CEO of JRBH Group in Los Angeles, California.

### **Chief Financial Officer: Sherry Moaven**

Ms. Moaven has served as Vice President and CFO of DRNK Coffee + Tea Franchising, LLC since its formation in June 2015. She has also served as CFO of DRNK Coffee + Tea, LLC since its formation in July 2013. From June 2010 until June 2013 she served as CFO of JRBH Group in Los Angeles, California.

### **Chief Marketing Officer and VP of Strategic Development: Amir Atighehchi**

Mr. Atighehchi has served as Vice President and CMO of Marketing of DRNK Coffee + Tea Franchising, LLC since January 2019. Mr. Atighehchi has served as VP of Strategic Growth of DRNK Coffee + Tea Franchising, LLC since its formation in June 2015. He has also served as Director of Strategic Growth of DRNK Coffee + Tea, LLC since July 2013. Prior to June 2013 he was a student enrolled in the USC Marshall School of Business in Los Angeles, California.

### **Vice President of Operations: Boris Horvat**

Mr. Horvat has served as the Vice President of Operations of DRNK Coffee + Tea Franchising, LLC since its formation in June 2015. He has also served as Vice President of Operations at DRNK Coffee + Tea, LLC since January 2014. From January 1998 until July 2013 he served as Director of National Operations for Robek's Corporation in Los Angeles, California. From July 2013 until December 2013 he was self-employed as a consultant in Los Angeles, CA.

## **ITEM 3: LITIGATION**

Ocean Eagle, Inc., et al., vs. DRNK Coffee + Tea Franchising, LLC, et al.; Superior Court of the State of California for the County of Los Angeles, Case No. 18STCV08253. On December 13, 2018, Ocean Eagle, Inc. ("Plaintiff"), a former franchisee of DRNK Coffee + Tea Franchising, LLC ("Defendant"), filed a complaint against Defendant relating to Defendant's breach of a settlement agreement relating to the termination of Plaintiff's franchise agreement and Defendant's agreement to make settlement payments in accordance with such settlement agreement. In accordance with the terms of such settlement agreement, Defendant executed a confession of judgment to be filed in the event of Defendant's failure to make settlement payments. On March 20, 2017, Plaintiff's application to have the confession of judgment was granted. As of the date of the issuance of this Disclosure Document Defendant has not been served and the parties are engaged in negotiations for revised settlement payment terms.

## **ITEM 4: BANKRUPTCY**

No bankruptcy is required to be disclosed in this Item.

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

The initial franchise fee is \$40,000. The franchise fee is due upon signing the franchise agreement.

There are no refunds of initial franchise fees under any circumstances. We may periodically reduce the initial franchise fee in connection with limited time promotions, new concepts and/or operational programs. We may vary the terms of our franchises in connection with testing new marketing, branding and/or operational programs. These tests are generally conducted with experienced, existing franchisees and may include incentives and other rights which are not available to all franchisees. If you purchase multiple franchises at the same time we may elect to vary the initial franchise fee due as well as providing other incentives and rights not available to all franchisees. If you sign the franchise agreement in connection with a transfer or renewal you will not pay the initial franchise fee.

In addition to the franchise fee, you will be required to pay \$900 to \$1,200 for required coffee inventory from our affiliate DCT. If you sublet your store from our affiliate DCT or DCT Real Estate you will be required to pay DCT or DCT Real Estate, as applicable, all amounts due under that company's lease with the landlord of your approved location.

None of these fees and amounts are refundable under any circumstances.

#### **ITEM 6: OTHER FEES**

##### **OTHER FEES**

<b>Type of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Royalty Fee	6% of Gross Sales	Payable monthly on the 15 <sup>th</sup> of each month based on the previous month's Gross Sales.	"Gross Sales" means all revenue from your franchise business excluding sales tax and authorized refunds, credits and allowances.
Marketing Fund Contribution	3% of Gross Sales	Payable monthly on the 15 <sup>th</sup> of each month based on the previous month's Gross Sales.	Every month, Franchisee shall contribute 3% of its monthly Gross Sales to the marketing fund.

Type of Fee	Amount	Due Date	Remarks
Audit Expenses <sup>(5)</sup>	All costs and expenses associated with audit, approximately \$1,500 to \$5,000	Upon demand	Audit costs payable to us only if the audit shows you have not spent 1% of your monthly Gross Sales on local advertising or if you under-reported amounts you owe us by 3% or more.
Late Fees <sup>(6)</sup>	1.5% per month or the highest rate allowed by the state where you are located (whichever is lower)	Upon demand	Applies to all overdue fees you owe us. Also applies to any understatement in amounts due revealed by an audit.
Approval of Products or Suppliers <sup>(7)</sup>	\$500 to \$1,000	Time of evaluation	Applies to the costs we expend in our evaluation of new suppliers you wish to purchase from or products you wish to purchase.
Insurance Policies	Actual cost plus administrative fee up to \$500 annually	Annually	Payable to us as a reimbursement only if you fail to maintain required insurance coverage and we elect, in our discretion, to obtain coverage for you.
Transfer Fee	\$10,000	At the time of notice of and request for Franchisor's consent to transfer	Payable to us at time of notice / request for consent to transfer. Partially refundable in the event that transfer does not close. Does not apply to an assignment to a controlled entity under Section 18.3 of the Franchise Agreement.
Document Administration Fee	\$500	Lump sum	Applicable for transfer of ownership of your franchise, including but not limited to a transfer of your franchise from an individual owner to an entity and/or a transfer of less than 50% ownership or control of your franchise.



Type of Fee	Amount	Due Date	Remarks
Relocation Assistance	Our costs	Time of assistance	If you need our assistance to relocate, and we agree, you must reimburse our costs to assist you.
Substitute or New Manager Training/ Additional Training <sup>(8)</sup>	Currently, \$600 per day, plus your expenses in attending	Time of training	We provide an initial training program before you begin operations and ongoing training programs during the term of the franchise. If you have to repeat our training programs, we may charge you a fee.
Additional Operations Assistance	Currently, \$600 per day plus our expenses	Time of assistance	We provide assistance at and near the beginning of your operations and during the term of the franchise. If you request additional assistance beyond what we already provide, you may be charged a fee, plus our expenses if we need to travel to accommodate your request.
Cost of Enforcement	All costs including reasonable attorneys' fees	Upon demand	You must reimburse us for all costs incurred in enforcing your obligations to us if we prevail.
Management Fee	Currently, \$600 per day, plus our expenses	Each month that it applies	You pay us at the stated rate if you breach the Franchise Agreement or following the death or incapacity of an owner of the franchise, and if we decide to temporarily manage your franchised business.
Franchise renewal fee	\$10,000	Prior to renewal of franchise	You pay us a fee if you choose to renew your franchise for a term of an additional 10 years.

**Item 6 Notes:**

Note 1: We may require that all fees payable to us be paid through an electronic depository transfer account.

Note 2: All of the fees noted above are uniform. No other fees or payments are to be paid to us or our affiliates, nor do we impose or collect any other fees or payments for any other third party.

Note 3: All fees are non-refundable.

Note 4: We may waive royalty fees for locations owned by family members of our founders. We may also temporarily waive or defer the obligation to pay royalty fees on a case by case basis in our sole discretion but are not obligated to do so.

Note 5: We assume costs for audits vary depending on factors, including prevailing auditor's rates in your area, the business activity being audited and how well you keep your books and records. You pay our actual costs only. You should be able to investigate these costs by contacting auditors in your area.

Note 6: Late fees begin to accrue from the date payment was due, but not received, or date of underpayment.

Note 7: Costs for approval of new products or suppliers vary depending on the availability of product samples for testing, shipping costs or travel costs to review the product, the type of product under review, whether the product or supplier has been rated and other similar factors. You pay our actual costs only.

Note 8: We provide initial training programs to an individual you select to be the designated manager of the franchise. Your designated manager's attendance is required. We do not charge fees for these programs, but if you replace your designated manager and your manager changes are excessive or due to poor hiring practices, we may charge you a fee.

## ITEM 7: ESTIMATED INITIAL INVESTMENT

### YOUR ESTIMATED INITIAL INVESTMENT

(DRNK coffee + tea franchise model)

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
Initial franchise fee	\$40,000	Lump Sum	At Franchise Agreement signing	Franchisor
Architect, engineer and other design professionals	\$4,000 to \$11,000	As arranged	Before Opening	Approved vendors
Expenses While Training	\$300 to \$7,000	As arranged	As incurred	Transportation, hotels, meals, etc.
Acquisition of Real Estate/ Deposits and Initial Rent <sup>(1)</sup>	\$4,000 to \$20,000	As arranged	As incurred	Landlord/Mortgagee/Sub-Lessor
Construction <sup>(2)</sup>	\$83,000 to \$140,000	As arranged	Before Opening	Approved vendors
Furnishings <sup>(3)</sup>	\$3,500 to \$9,000	As arranged	Before Opening	Approved vendors
Equipment <sup>(4)</sup>	\$67,000 to \$118,600	As arranged	Before Opening	Approved vendors
Inventory <sup>(5)</sup>	\$6,100 to \$8,800	As arranged	Before Opening	Approved vendors
Inventory (from Affiliate) <sup>(6)</sup>	\$900 to \$1,200	As arranged	Before Opening	Affiliate DCT

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
Utility Deposits and Fees <sup>(6)</sup>	\$1,000 to \$2,400	As arranged	Before Opening	Utilities
Business License <sup>(7)</sup>	\$300 to \$600	As arranged	Before Opening	Government and Agencies
Insurance <sup>(8)</sup>	\$2,000 to \$3,000	As arranged	Before Opening	Insurance Agencies
Grand Opening	\$1,000 to \$3,000	As arranged	Before Opening and during the 3-months following opening	Vendors
Uniforms	\$200 to \$1,000	As arranged	Before Opening	Approved vendors
Office Expenses	\$200 to \$600	As arranged	Before Opening	Lump Sum
Point of Sale System <sup>(9)</sup>	\$11,000 to \$12,000	As arranged	Before Opening	Approved vendors
Telephone	\$150 to \$300	As arranged	Before Opening	Vendors
Signage <sup>(10)</sup>	\$7,500 to \$12,500	As arranged	Before Opening	Approved vendors
Legal and Accounting	\$1,000 to \$3,000	As arranged	Before Opening	Vendors
Additional Funds - 3 months <sup>(11)</sup>	\$20,000 to \$40,000	As arranged	As incurred	Vendors, employees, etc.
TOTAL <sup>(12)</sup>	\$253,150 to \$434,000			

Notes are common to all 3 tables and are set forth after the last table in this Item 7.

**YOUR ESTIMATED INITIAL INVESTMENT**  
**(QWENCH juice bar franchise model)**

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
Initial franchise fee	\$40,000	Lump Sum	At Franchise Agreement signing	Franchisor
Architect, engineer and other design professionals	\$4,000 to \$11,000	As arranged	Before Opening	Approved vendors
Expenses While Training	\$300 to \$7,000	As arranged	As incurred	Transportation, hotels, meals, etc.
Acquisition of Real Estate/ Deposits and Initial Rent <sup>(1)</sup>	\$4,000 to \$20,000	As arranged	As incurred	Landlord/Mortgagee/Sub-Lessor
Construction <sup>(2)</sup>	\$85,000 to \$225,000	As arranged	Before Opening	Approved vendors

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
Furnishings <sup>(3)</sup>	\$3,500 to \$17,000	As arranged	Before Opening	Approved vendors
Equipment <sup>(4)</sup>	\$92,000 to \$114,000	As arranged	Before Opening	Approved vendors
Inventory <sup>(5)</sup>	\$4,100 to \$7,800	As arranged	Before Opening	Approved vendors
Inventory (from Affiliate) <sup>(5)</sup>	\$900 to \$1,200	As arranged	Before Opening	Affiliate DCT
Utility Deposits and Fees <sup>(6)</sup>	\$1,000 to \$2,400	As arranged	Before Opening	Utilities
Business License <sup>(7)</sup>	\$300 to \$600	As arranged	Before Opening	Government and Agencies
Insurance <sup>(8)</sup>	\$2,000 to \$3,000	As arranged	Before Opening	Insurance Agencies
Grand Opening	\$1,000 to \$3,000	As arranged	Before Opening and during the 3-months following opening	Vendors
Uniforms	\$200 to \$1,000	As arranged	Before Opening	Approved vendors
Office Expenses	\$200 to \$600	As arranged	Before Opening	Lump Sum
Point of Sale System <sup>(9)</sup>	\$11,000 to \$12,000	As arranged	Before Opening	Approved vendors
Telephone	\$150 to \$300	As arranged	Before Opening	Vendors
Signage <sup>(10)</sup>	\$7,500 to \$12,500	As arranged	Before Opening	Approved vendors
Legal and Accounting	\$1,000 to \$3,000	As arranged	Before Opening	Vendors
Additional Funds - 3 months <sup>(11)</sup>	\$20,000 to \$40,000	As arranged	As incurred	Vendors, employees, etc.
TOTAL <sup>(12)</sup>	\$278,150 to \$521,400			

Notes are common to all 3 tables and are set forth after the last table in this Item 7.

**YOUR ESTIMATED INITIAL INVESTMENT**  
**(Co-branded franchise model)**

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
Initial franchise fee	\$40,000	Lump Sum	At Franchise Agreement signing	Franchisor
Architect, engineer and other design professionals	\$4,000 to \$12,500	As arranged	Before Opening	Approved vendors

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
Expenses While Training	\$400 to \$8,000	As arranged	As incurred	Transportation, hotels, meals, etc.
Acquisition of Real Estate/ Deposits and Initial Rent <sup>(1)</sup>	\$6,000 to \$24,000	As arranged	As incurred	Landlord/Mortgagee/Sub-Lessor
Construction <sup>(2)</sup>	\$190,000 to \$300,000	As arranged	Before Opening	Approved vendors
Furnishings <sup>(3)</sup>	\$9,000 to \$26,000	As arranged	Before Opening	Approved vendors
Equipment <sup>(4)</sup>	\$100,000 to \$207,000	As arranged	Before Opening	Approved vendors
Inventory <sup>(5)</sup>	\$11,100 to \$15,000	As arranged	Before Opening	Approved vendors
Inventory (from Affiliate) <sup>(5)</sup>	\$900 to \$1,200	As arranged	Before Opening	Affiliate DCT
Utility Deposits and Fees <sup>(6)</sup>	\$1,000 to \$2,400	As arranged	Before Opening	Utilities
Business License <sup>(7)</sup>	\$300 to \$600	As arranged	Before Opening	Government and Agencies
Insurance <sup>(8)</sup>	\$2,000 to \$3,000	As arranged	Before Opening	Insurance Agencies
Grand Opening	\$1,000 to \$3,000	As arranged	Before Opening and during the 3-months following opening	Vendors
Uniforms	\$200 to \$1,000	As arranged	Before Opening	Approved vendors
Office Expenses	\$200 to \$600	As arranged	Before Opening	Lump Sum
Point of Sale System <sup>(9)</sup>	\$12,500 to \$14,500	As arranged	Before Opening	Approved vendors
Telephone	\$150 to \$300	As arranged	Before Opening	Vendors
Signage <sup>(10)</sup>	\$7,500 to \$12,500	As arranged	Before Opening	Approved vendors
Legal and Accounting	\$1,000 to \$3,000	As arranged	Before Opening	Vendors
Additional Funds - 3 months <sup>(11)</sup>	\$20,000 to \$40,000	As arranged	As incurred	Vendors, employees, etc.
TOTAL <sup>(12)</sup>	\$407,250 to \$637,600			

Notes are common to all 3 tables in this Item 7 and are set forth below.

**Note 1: Acquisition of Real Estate/ Deposits and Initial Rent.** If you do not own adequate space, you must lease retail space for your store. Typical locations for a DRNK coffee + tea, QWENCH juice bar or combined model range from 900 to 1,700 square feet and should be located in a high foot-traffic area such as a downtown business area, an upscale strip-center or a college campus. Rent will vary significantly depending on such factors as square footage, market climate, type of facility, location

(relating to the location of the shopping center within a community and to the location of the leased premises within the shopping center), condition of the leased premises, the age and popularity of the shopping center where the leased premises is located, etc. If the cost of leasehold improvements is amortized into your lease, your monthly lease rates could significantly increase. The figures in the chart reflect an estimate of the first month's rent and last month's rent as a security deposit. In addition to rent, there are often a variety of additional charges that you are obligated to pay including a proportionate share of real estate taxes, security, maintenance and other expenses of the shopping center, building or structure in which your store is located. Estimated rental costs for three (3) months are included with the category "Additional Funds".

**Note 2: Construction.** The cost of construction/property improvements will vary significantly depending upon many factors, including, without limitation, square footage, geographic area, market climate, labor market (e.g., prevailing wage rates, union labor restrictions, etc.), type and condition of the facility, location, condition of the leased premises and price difference between various suppliers and contractors. These estimates assume you are establishing a traditional Store in a typical neighborhood shopping center or free-standing building. In some circumstances, it may be possible to convert an existing free-standing building, a pre-existing facility, a multi-level office or commercial facility, regional mall, food court, etc. with our consent as long as it conforms to all of our standards and specifications. The costs of leasehold improvements are your sole responsibility and will vary depending upon your negotiations with the landlord or third parties prior to occupancy, or they may be financed through the landlord or third parties. You may be able to negotiate for "tenant improvement" allowances that can help to reduce your net construction costs. This is an important factor for you to consider in choosing a location. Additional important cost factors are the condition in which a landlord delivers a space, the extent to which it has existing improvements, such as restroom facilities, electrical, HVAC, storefront, doors, concrete slab, and other elements, and the nature of the building/site, among other factors, all of which will significantly impact the costs you should expect to incur. The estimated cost range provided reflects net costs and assumes a tenant improvement allowance for a store of approximately 900 to 1,700 square feet. These assumptions do not apply in all instances because of all of the above-noted variables. If you receive little or no tenant improvement allowance and the landlord delivers the site with few, if any, improvements and/or the building has site specific issues affecting development costs, you could expect to incur additional costs of \$20,000 to \$50,000, or higher. You should consult with a qualified, licensed and approved contractor for cost estimates specific to your site before signing the lease, since we cannot predict or warrant what future costs may be. You are responsible for obtaining all necessary permits and licenses required for the location, construction, renovation or operation of your Store.

**Note 3: Furnishings.** Figures for furnishings include tables, chairs and static menu boards.

**Note 4: Equipment.** Although some of these items may be leased, the range shown represents the actual purchase price. Figures for equipment include the standard small wares package. Equipment installation charges are included in the range of expenses for equipment. Your initial investment in equipment may be higher when opening a Co-Branded location due to the additional equipment needed for both the DRNK and QWENCH models.

**Note 5: Inventory.** Figures for inventory assume an opening inventory and replenishment for the first 30 days of operation and include food stuffs, plastic and paper goods. The inventory (from Affiliate) line item of \$900-\$1,200 shown on the tables above is the amount that will be paid to our affiliate DCT for coffee inventory. Although it is possible that initial inventory may be purchased on open account, the range shown represents the full cost of purchase. The amount you pay will vary depending upon the amount of products you order, your staff size and business volume. Co-branded stores may have higher inventory costs due to the combination of juicing inventory along with coffee and tea inventory purchases.

**Note 6: Utility Deposits and Fees.** A utility deposit will typically be required only if the franchisee is a new customer of the utility company.

**Note 7: Business License.** State and local government agencies typically charge fees for occupancy permits, operating licenses and permits to make improvements to your office and storage area. These fees are typically non-refundable. You should inquire about the cancellation and refund policy of the agencies at or before the time of payment. We do not know if the amounts you spend are refundable.

**Note 8: Insurance.** You must purchase the following types and amounts of insurance: (1) "all risk" property insurance; (2) workers' compensation insurance and employer liability coverage with a minimum limit of \$100,000 or higher if your state law requires; (3) comprehensive general liability insurance with a minimum liability coverage of \$1,000,000 per occurrence and an aggregate of not less than \$2,000,000, or higher if your state law requires, and maintain other insurance in accordance with state law requirements. Some property owners may require higher levels of public liability insurance under their leases. A twenty percent (20%) down payment of the annual premium for general liability insurance and workers' compensation insurance costs is included in the low-end estimate, and the full annual premium is included in the high estimate. Factors that may affect your cost of insurance include the size and location of the franchised business, equipment, inventory, number of employees and other factors. The amounts you pay for insurance are typically non-refundable. You should inquire about the cancellation and refund policy of the insurance carrier or agent at or before the time of purchase.

**Note 9: Point of Sale System.** includes all electronic based hardware, software, middleware, web-based solutions, wireless, electronic interfaces, cabling, and other electronic devices, including, computer systems, data systems, network systems, printer systems, internet systems, telecommunication systems and required service and support systems and programs from our approved vendor. "POS System" means the point-of-sale and cash collection systems. This figure includes cost for one to two POS system terminals, and associated printers and cash drawers, point-of-sale software, point-of-sale system help desk phone support, polling and reporting. You must obtain a high-speed communications connection (such as DSL or cable internet connection services). You may be required to upgrade to a T-1 line under certain circumstances. Your initial investment will depend on your location, and any modifications needed for hook up and installation.

**Note 10: Signage.** Before you sign a lease, you must obtain a brand specific drawing that meets all our specifications and is specific to your location ("Approved Sign Criteria") from our Designated Supplier of signage services. The range of costs represents the outright purchase of all signage on the franchised locations. It is subject to all local ordinances. Signage may vary when Co-Branded locations are opened. These costs are typically not refundable. You must obtain a final approved sign plan ("Approved Sign Plan") from us and/or our designee and have the sign drawing and sign plan incorporated into your lease. You must use our Designated Supplier for construction and installation of your signage. You must remove and replace at your cost any previous sign at the new store location that does not meet the Approved Sign Criteria and Approved Sign Plan.

**Note 11: Additional Funds.** We recommend that you have a minimum amount of money available to cover operating expenses for the first three (3) months that the franchised business is open. The lower end represents estimated expenses to maintain minimal operations without any sales for three (3) months. The high end is a more conservative working capital estimate. These are estimates only and are not a breakeven analysis for your business. We cannot guarantee that our recommendation will be sufficient. Additional working capital may be required if sales are low or operating costs are high. These expenses are typically non-refundable.

**Note 12: Total.** All of the above figures are estimates of certain pre-opening and initial operating expenses. It is not all-inclusive, and we cannot guarantee you will not have additional expenses in starting your DRNK, QWENCH or co-branded store. The total figure listed in the above chart does not include compensation for your time or labor. Your costs will vary depending upon such factors as: how closely you follow the franchise system; your management and marketing skills; experience and

general business ability; and local and general economic conditions. Additionally, and as noted in Item 11, Stores typically open between 9 and 12 months, but, depending on circumstances, this period can extend to 18 months after the franchise agreement is signed. We do not and cannot predict to what extent costs at the time that you incur them will vary from the information contained in this chart, but they may vary significantly. Total costs to begin operations and other financial requirements may be more or less than the figures specified above. Many of these factors are primarily under your control in your independent operation of the business, and may include necessary licenses, permits or certifications. You are solely responsible for identifying and complying with all applicable laws, regulations and ordinances, including all licenses and permits that may be required for your DRNK, QWENCH or co-branded store. The foregoing is not an estimate of capital or other reserve funds necessary for you to reach "break-even" or any other financial position, nor do any of these estimates include any finance charges, interest or debt service obligations, personal expenses or other excluded amounts. You should not assume that revenues from your customers will cover your initial or later expenses. You should review these figures carefully with a business advisor, such as an accountant, before making any commitments. We cannot assure you that you will not have additional expenses in starting your business. Your actual cost will depend upon a number of factors, including local economics and market conditions and the size of your store. We urge you to review these figures carefully with a business advisor, accountant and attorney before making any commitments. We do not offer financing either directly or indirectly for any of the above items.

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

Except as stated in this Item 8, you have no obligation to purchase or lease goods, services, supplies, fixtures, equipment, inventory or computer hardware relating to the establishment or operation of your DRNK or QWENCH or co-branded location from us or from any of our designees.

### **Required purchases**

The Franchise Agreement requires that all food products, ingredients, equipment, computer hardware and software, furniture, fixtures, décor, signs, computer equipment, supplies and other products, services and materials which you will use in the operation of your location meet our standards and be purchased only from approved distributors and suppliers. You may use any operational service providers, such as exterminators, refrigeration services companies, refuse removal companies, and similar service providers that you desire. If we organize a rollout for a new approved product or a new supplier of an approved product, you will be required to purchase such approved product(s) from our approved distributors of the approved supplier within 60 days of notification from us.

### **Purchases from approved suppliers**

You must purchase all products, equipment and services required to establish and operate your franchise from approved suppliers. We do not directly supply any products or services to you. Our affiliate DRNK Coffee + Tea, LLC, is an approved supplier of coffee beans and franchisee consulting services for your business. Our affiliate DCT Real Estate is an approved supplier of real estate management and consulting services for your business. Our Chief Financial Officer, Sherry Moaven, is the sole owner of our affiliates. We have also approved other suppliers of your required products, equipment and services and these approved suppliers are listed in our operations manual. We may alter the specifications for approved suppliers in our manual from time to time.

Primary Color is currently one of the approved suppliers of certain graphics and menu boards. R Power, is currently the only approved service provider of maintenance for the software and hardware of the POS system.

There are other approved suppliers for each of the items you will purchase to operate your DRNK coffee + tea or QWENCH juice bar or combination DRNK/QWENCH location. You may, but are not



currently required to, sell specialty foods (such as packaged nutrition bars, chips and other ancillary items), branded apparel (such as t-shirts and caps) and retail items, as approved by us, which are prepared, sold and manufactured in strict accordance with our recipes and standards, including specifications as to ingredients, brand names, preparation and presentation.

You must, at your own cost and expense, use our designated and approved third party design architect, as detailed in the Operations Manual, to prepare the initial design drawings for your Franchised Business. Except for the design architect designated and approved by us, no other architect may be used by you for the design of your location. You must also, at your own cost and expense, retain a licensed architect of record to prepare the permitted construction set of drawings.

You must purchase an interior and exterior sign package and menu panels in accordance with our specifications indicated in the Operations Manual and related documents provided to all franchisees. In addition, you must have your location be consistent in color, design and style with the standards and specifications adopted and approved by us, and as we may modify those standards periodically. You must maintain the appearance and atmosphere of your DRNK or QWENCH or Combined DRNK/QWENCH location, and the equipment and premises used in connection with your location, in accordance with the standards we may adopt from time to time. Any variations in color, design, style, appearance or atmosphere must be approved in writing by us.

You are required to acquire, from an approved supplier, and exclusively use an approved cash register/point of sale computer system and software during the operation of your location. The components and specifications of this system are specifically identified in the Operations Manual or opening specification guide, including approved vendors for such system. You shall also be required to own a personal computer or similar device that allows you to send and receive e-mails with us, or a fax machine to allow communication with us.

You are required to accept all approved debit and credit cards, along with DRNK or QWENCH sponsored electronic card and/or payment program (collectively, you will be required to acquire an approved debit, credit and Gift/Loyalty card processing system to use during the operation of your location. You must utilize our approved third-party payment card processor, as identified in the Operations Manual, for processing all such debit, credit, rewards, and Gift/Loyalty card transactions.

You must complete a food safety manager training program at your cost. We will accept your local county or state required program or any other nationally recognized food safety program. You must provide us with a copy of your certificate.

We have also approved other suppliers of your required products, equipment and services and these approved suppliers are listed in our operations manual. We may alter the specifications for approved suppliers in our manual from time to time.

### **Approval of alternative suppliers**

All requests for approving new or alternative suppliers must be submitted in writing by you and/or the supplier to us. Each request will be reviewed in accordance with our then-current procedures and the supplier must meet our then-current requirements, which may include that our representatives be allowed to inspect the facilities of the proposed supplier and that samples from the proposed supplier be delivered, at no charge to us, either to us or to our designee for testing. You will bear all expenses incurred by us in connection with determining whether we approve an item, service or supplier. We will decide within 60 days after receiving the required information whether you may purchase or lease such items or services or from such supplier. Approval of a supplier may be conditioned on the supplier's ability to provide sufficient quantity of product; quality of products or services at competitive prices; production and delivery capability; and dependability and general reputation. Our criteria for approving suppliers is available to franchisees upon written request to our us. You must not offer for sale or sell any of the proposed alternative suppliers products until you receive our written approval of the proposed alternative supplier. We may, at our option, re-inspect the facilities and products of any

approved supplier and revoke its approval upon the supplier's failure to meet any of our then current minimum standards and specifications. If you receive a written notice of revocation from us you must stop selling disapproved products and stop purchasing from the disapproved supplier.

We provide all specifications and standards to you in the Operations Manual, which we may modify from time to time by providing you with "directives" for limited time offers, amendments modifications or supplemental inserts through notices or bulletins, or by amending the Operations Manual. A list of approved distributors for our approved vendors is maintained by our operations department and will be provided to you during the pre-opening and/or construction phase for your Franchised Business. Updates will be provided to you as changes are made (i.e., additions and deletions) to the list of approved distributors for our approved vendors.

Although not bound to do so, DRNK coffee + tea Franchising may conduct, from time to time, additional research and development with regard to its specifications and standards. The criteria for evaluating any changes in these specifications will be whether such changes in the specifications will improve quality, be more efficient and have greater customer appeal, thus enhancing the DRNK and/or QWENCH brand name and image.

### **Revenue from franchisee purchases**

We do not derive any revenue or other material consideration from required purchases or leases by franchisees. Our total revenue is set forth on the financial statements attached at Exhibit E.

In the year ended December 31, 2018, our affiliate DRNK Coffee + Tea, LLC's revenue from the sale of coffee and other food and beverage items to franchisees was \$74,440.

We estimate the cost of your total purchases to establish and operate these purchases of goods and services from us and our affiliates will represent 2.6% to 5.3% of your overall purchases in establishing and operating your business and the purchases of good and services from all approved vendors (including us and our affiliates) will represent 72% to 77% of your overall purchases in establishing and operating your business.

### **Payments to Franchisor and affiliates from suppliers based on Franchisee purchases**

We or our affiliates may also from time to time receive rebates and/or allowances, from certain suppliers on purchases made by you and other franchisees. The rebates and/or allowances are generally based upon a percentage of franchisee purchases, will be included in our general revenue, and may be used by us for salaries of personnel that assist franchisees increase their sales, maintaining the customer service hotline, handling of inquiries and complaints tracking consumer service hotline trends, product research and development, franchisee crew training, supply chain information management systems, and a variety of ongoing programs, including education, marketing, advertising, and franchisee meetings, seminars, conventions, conferences, and events. These rebates are usually based on an amount per unit, per case, per gallon, or per pound of product (i.e., paper products, beverages and apparel) purchased. We may use rebate and allowance funds received from our suppliers to benefit any DRNK coffee + tea or QWENCH juice bar or combination DRNK/QWENCH location in our sole and absolute discretion.

### **Cooperatives**

We do not have any purchase or distribution cooperatives.

### Negotiated prices

We have negotiated special pricing arrangements or discounts with some of our suppliers. The arrangements may include special contract pricing, volume discounts, and specific discounts from regular wholesale prices. These discounts are typically passed on to our franchisees.

Other than the foregoing, we do not negotiate purchase arrangements with any suppliers on your behalf.

### Material benefits

Other than our negotiation of special pricing arrangements or discounts from suppliers described above, we do not provide any other material special benefits to franchisees based on their purchase of particular approved supplies or their use of particular approved suppliers.

We may, from time to time, provide referral incentives to franchisees, employees and others for qualified referrals of prospective franchisees. We may, from time to time, pay membership fees to public, quasi-public and private service providers who refer potential franchisees from identified groups (e.g. veterans or military personnel planning to leave the service).

## ITEM 9: FRANCHISEE'S OBLIGATIONS

### FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Agreement	Disclosure Document Item
a. Site selection and acquisition/lease	5	7 and 11
b. Pre-opening purchases/leases	5	7 and 8
c. Site development and other pre-opening requirements	5	11
d. Initial and ongoing training	8	6, 7 and 11
e. Opening	5 and 8	11
f. Fees	3 and 11	5, 6 and 7
g. Compliance with standards and policies/ Operating Manual	9 and 13	8, 14 and 16
h. Trademarks and proprietary information	6	13 and 14
i. Restrictions on products/services offered	13	8 and 16
j. Warranty and customer service requirements	13	16
k. Territorial development and sales quotas	Not Applicable	12
l. Ongoing product/service purchases	13	8 and 11
m. Maintenance, appearance and remodeling requirements	5 and 13	6
n. Insurance	15	6, 7 and 8
o. Advertising	11	6,7 and 11
p. Indemnification	21	Not Applicable
q. Owner's participation/ management/ staffing	8 and 13	15

Obligation	Section in Agreement	Disclosure Document Item
r. Records and reports	12	11
s. Inspections and audits	6 and 12	6, 11 and 13
t. Transfer	18	6 and 17
u. Renewal	4	17
v. Post-termination obligations	17	17
w. Non-competition covenants	7	17
x. Dispute resolution	23	17
y. Right of First Refusal	19	Not Applicable

## ITEM 10: FINANCING

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

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

**Except as listed below, DRNK Coffee & Tea Franchising, LLC is not required to provide you with any assistance.**

### Pre-opening Obligations

Before you open your business, we will:

1. Assist you in selecting a business site (Franchise Agreement Section 5.1). We do not lease to you real estate owned by us but on a case by case basis our affiliate DCT Real Estate may lease may sublease premises that it occupies as tenant. You must select your business site subject to our approval. We will approve or disapprove your site within a reasonable time, typically less than 30 days, after we receive notice of the proposed location. Our approval will be based on such factors as we deem appropriate, including, without limitation, the condition of the premises, demographics of the surrounding area, proximity to other DRNK, QWENCH or co-branded DRNK/QWENCH stores, proximity to competitive businesses, or the size of the location and lease requirements. (Franchise Agreement Section 5.1). We may terminate your franchise agreement and franchise if you fail to select a business site within six months of signing your franchise agreement. (Franchise Agreement Section 5.2).
2. If requested, assist you in negotiating the lease or purchase of a location for your store. (Franchise Agreement Section 5.3) You will lease from an independent third-party landlord.
3. Provide store layouts and written specifications for store construction or remodeling and for all required and replacement equipment, inventory, and supplies. (Franchise Agreement Section 5.4) You pay the construction and remodeling costs.
4. Approximately 6 – 8 weeks prior to your store opening, provide an initial training program for your designated manager and 1 – 3 additional persons designated by you. (Franchise Agreement Section 8.1)
5. Provide you with a hard copy or online access to our proprietary operations manual which is the blueprint for all aspects of running your business. (Franchise Agreement Section 9).

## **Time for Opening your Store**

Franchisees typically open their stores within 9 to 12 months after they sign a franchise agreement, although this period has been as long as 18 months. The factors that affect opening time are the ability to obtain a lease, financing, or building permits, zoning and local ordinances. Other factors include weather conditions, shortages, and delays in installation of equipment, fixtures and signs. (Franchise Agreement Section 5.4 and 5.6). We may terminate your franchise agreement and franchise if you do not develop and open your store within twelve months of signing your franchise agreement (Franchise Agreement Section 5.5 and 5.7).

## **Post Opening Obligations**

During the operation of the franchised business, we will:

1. Authorize the products and services for sale or use in your franchised business. (Franchise Agreement Section 13.1)
2. Make available to you ongoing training as we think necessary and when we do we may require you to attend. (Franchise Agreement Section 8.5)
3. Provide you with modifications to the Operations Manual as they are made available to franchisees. (Franchise Agreement Section 9.2) We have the right to change or modify the System and will notify you of any changes. (Franchise Agreement Section 10.2)
4. Offer you advice and guidance on prices for products and services. (Franchise Agreement Section 14.1)
5. Be available to render advice, discuss problems and offer general guidance to you by telephone, e-mail, facsimile, newsletters and other methods with respect to general operating problems. (Franchise Agreement Section 14.1) We will also make periodic visits to the Approved Location to provide you with consultation, assistance and guidance in various aspects of the operation and management of the franchised business. (Franchise Agreement Section 14.2)
6. Review and approve or disapprove any advertising, direct mail, identification, and promotional materials and programs you propose. (Franchise Agreement Section 11.2)
7. We will evaluate sites to which you propose to relocate your store in accordance with the site selection criteria provisions described above in this item. (Franchise Agreement Section 5.9)

## **Advertising**

We are not obligated to conduct advertising in any particular area, including your local area, but regularly do conduct local, regional and national advertising campaigns, maintain a dedicated System-wide marketing and advertising fund (Marketing Fund), and also provide you certain marketing and advertising materials and services through our in-house marketing department. Materials provided to all franchisees include videos, banners, posters, window graphics, decals, and miscellaneous point-of-sale items. You will receive a limited initial supply of these materials at no charge. If you want additional copies, you must pay duplication costs. (Franchise Agreement Section 11.2)

You may develop advertising materials for your own use, at your own cost. You must obtain our prior written consent to any advertising material you develop. However, all internet and television advertisements must be prepared and posted by us. (Franchise Agreement Section 11.2)

Once you commence operations, you must participate in local advertising and monthly spend 1% of your Gross Sales on advertising, promotions and public relations within the immediate locality surrounding the franchised business. You must participate in our System-wide Marketing Fund. (Franchise Agreement Section 11.3). As of the date this Disclosure Document was issued, all franchised outlets are required to contribute 3% of their monthly Gross Sales (gross revenue excluding

sales tax and authorized refunds, credits, and allowances) to the Marketing Fund. Our in-house marketing and advertising department administers the Marketing Fund. Amounts in the Marketing Fund not spent by the end of our fiscal year are carried over into the next year. We do not currently audit the Marketing Fund. We will provide franchisees annual accountings of the Marketing Fund upon request.

We reserve the right to use funds from the Marketing Fund to place advertising in national media (including broadcast, print, internet and other media, including social media and digital marketing platforms). As of the date this Disclosure Document was issued, we do not use funds from the Marketing Fund to solicit new franchise sales, but we may do so in the future.

During the year ended December 31, 2018, we spent approximately 70% of the Marketing Fund's income on the production of advertisements and other promotional materials, 15% for media placement, and 10% for general and administrative expenses, and 5% for other miscellaneous but related expenses.

We do not have an advertising council.

Although we are not obligated to do so, we may create a cooperative advertising program for the benefit of all franchised businesses and company-owned outlets located in a particular region. If we create a cooperative advertising program in your region, we will have the right to collect and designate all or a portion of the local advertising commitment (which is 1% of each store's monthly Gross Sales) from you, and from all franchised outlets and company-owned outlets in the region for cooperative advertising. We will determine the geographic territory and market areas for each cooperative advertising program. You must participate in any cooperative advertising program established in your region. If we create a cooperative advertising program in your region, any governing documents for such program will be available for your review upon written request. (Franchise Agreement Section 11.4)

#### Grand Opening Advertising

You must spend at least \$1,000, and most franchisees spend up to \$3,000, on grand opening advertising promoting the opening of your store within 60 days of first opening for business (your Grand Opening Obligation). The Grand Opening Obligation will not be required if your store is opening in a "Captive Audience" location, including, but not limited to, a travel facility, an airport, a train station, a bus terminal, a highway travel plaza, airport facility, a sports facility, an entertainment facility, a stadium, an arena, an amphitheater, a theme park, an amusement park, a zoo, a concert venue, or a drive-in or theatre. Captive Audience locations do not include enclosed malls. All materials you use for this Grand Opening Obligation, and the media in which you use them, are subject to our approval.

#### **Computer Requirements**

We require you to have a computer system and internet access. You are required to purchase or have access to a document processing and email system such as Microsoft Office or Google Docs and a business accounting system such as QuickBooks. Your computer must be in good repair, with sufficient memory to carry out ordinary business functions, as provided in the operations manual. You also must purchase a point of sale system from an approved supplier. See Items 7 and 8 of this disclosure document. We are required to have independent access to the point of sale system and reserve the right to conduct periodic audits of any accounting records contained in the system. (Franchise Agreement Section 12.5 and 12.6)

We anticipate the costs of this equipment and software to range from \$11,000 to \$14,500. In addition, there may be license, installation, maintenance and service fees associated with the implementation and maintenance fees required to operate the entire system.

The R-Power Restaurant POS system platform is an integrated solution that contains components that reside and operate in your store and components that reside and operate on the Internet. Because of this, we require you to obtain the required maintenance service and you must pay the maintenance

fees required to operate the entire system. Ongoing monthly support fees for your POS system run approximately \$195 per month.

In addition, we require each operating location to participate in our in-store and internet application-based guest loyalty programs, which are operated through a third-party vendor. The in-store guest loyalty program has a monthly fee of approximately \$40 and the internet-based application has a monthly fee of approximately \$80, each of which are paid directly to the third-party vendor. We also require each operating location participate in our customized and branded music program, which has a monthly fee of approximately \$40 that is paid directly to the third-party vendor.

### **Operations Manual**

We will provide to you, on loan, one copy of the DRNK coffee + tea, QWENCH juice bar or co-branded operations manual or provide you with access to an electronic copy of the Operations Manual. The Table of Contents of the Operations Manual, along with number of pages devoted to each subject, is included as Exhibit D to this Disclosure Document. (Franchise Agreement Section 9.1)

### **Franchisor's Training Program**

#### **TRAINING PROGRAM**

<b>Subject</b>	<b>Hours of Classroom Training</b>	<b>Hours of On-The-Job Training</b>	<b>Location</b>
Administrative training	12	0	Company headquarters, training store and franchised location
Store operations training	68	64	Training store and franchised location
<b>Totals</b>	80	64	

We provide you an initial training program, store opening training and support, and ongoing training as requested and/or as is determined to be needed and approved the us in our discretion. All training is conducted by our operations staff each having a minimum of 5 years brand-specific experience and a minimum of 8-10 years experience in franchisee operations and the quick service restaurant and related food service industries. For purposes of this disclosure document, we consider our initial training program that takes place in our training store to be “classroom” training and your store opening training and support to be “on-the-job training”.

### **Initial Training**

We typically schedule initial training for you and your senior operations personnel, including the individual who will be the designated on-premises manager of your store (up to 3 people total) 6 to 8 weeks prior to your store opening. This initial training is designed for you to complete a manager-level training program to prepare you to becoming a certified store manager; and at least one person must successfully complete this training program. We provide this initial training to you at no additional cost, although you must pay any travel and living expenses for you and your staff. Your initial training will be conducted at our training store in Los Angeles, California, or at other location(s) we specify. After this initial training, you will be responsible to effectively train and develop all new store managers. We may, in our discretion, assess any new store managers and other staff.

## **Store Opening Support**

For your first store, we provide you on-site training and assistance, which includes training and assistance during and for pre-opening, training for your entire new store team, and store support during the soft opening and following days. The store opening support will be scheduled once store construction has been completed and all required permits have been issued. This support and training will be for a minimum of 8 days and may be scheduled for additional days in our discretion. This support and training will be at no additional cost for your first store.

## **Additional Training**

We may require you undergo additional mandatory training programs or offer optional training programs as new products, equipment or procedures are introduced. There will be no cost to you for any mandatory additional training aside from the expenses related to travel and stay to the training location. Optional training programs may or may not include a cost.

## **ITEM 12: TERRITORY**

You will operate each franchised outlet from a location selected by you and approved by us. There is no minimum territory for single franchise outlets. We reserve the right to grant area development agreements that may provide for a territory with parameters to be determined a case-by-case basis.

You do not have any right to open or acquire additional franchises unless you purchase another franchise.

We shall allow the reasonable relocation of your business, but you must receive our permission before relocating. If your store's lease expires through no fault of yours, or if your store premises is destroyed, condemned or otherwise rendered unusable, you may request the right to relocate your business either permanently or temporarily as appropriate under the circumstances and we will not unreasonably withhold consent for such relocation. If you desire to relocate your business for any other reason, we may approve or disapprove such request in our sole discretion. Any relocations are at your sole expense. We are not obligated to provide you relocation assistance. If you request and we do provide relocation assistance to you, we have the right to charge you for any costs incurred by us in providing relocation assistance to you, including, but not limited to, legal and accounting fees. Notwithstanding the foregoing, Franchisor has no obligation to provide relocation assistance.

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control. We are not required to compensate you for soliciting or accepting orders in the area that your outlet services.

We retain the right, in our sole discretion, to offer goods and services identified by brands we control through channels of distribution other than through DRNK coffee + tea, QWENCH juice bar and co-branded stores to locations and customers located anywhere, including those residing in your local area or territory. We also reserve the right to sell goods through mail order, catalog sales, telemarketing, Internet, television, newspaper, and any other advertising media to consumers located anywhere, including within your local area territory. However, neither we nor any affiliate currently operate or plan to operate or franchise businesses under a different trademark that sells as its primary business goods or services that are the same as or similar to those you will sell.

You are not restricted from selling DRNK coffee + tea and/or QWENCH juice bar products and services to customers residing outside your local area or territory. Except when advertising cooperatively with appropriate franchisees, you are restricted from advertising outside your territory without prior permission. You may not engage in any mail order solicitations, catalog sales, telemarketing, Internet, or television solicitation programs, or use any other advertising media outside your local area or territory without our prior written consent. Further, you may not maintain a World Wide Web site, social



media site, or otherwise maintain a presence or advertise on the internet or any other public computer network in connection with the Franchised Business without our prior written approval.

### ITEM 13: TRADEMARKS

We grant you the right and license to operate a store and business under the name “DRNK coffee + tea” and/or “QWENCH juice bar”. You may also use our future trademarks to operate your store. By “trademark” and “mark,” we mean trade names, trademarks, service marks, and logos used to identify your store and business. The following are our principal marks, which we registered on the Principal Register of the United States Patent and Trademark Office (USPTO). We have filed all required affidavits for the marks.

TRADEMARK	REGISTRATION NUMBER	REGISTRATION DATE
DRNK COFFEE + TEA	4663946	December 30, 2014
DRNK	4685541	February 10, 2015
D (logo)	4724584	April 21, 2015
QWENCH JUICE BAR	5053150	October 4, 2016

You must follow our rules when you use these marks. You cannot use the name or mark as part of a corporate or other entity name or with modifying words, designs, or symbols, except for those we license to you. You may not use our registered name or marks in connection with the sale of any unauthorized product or service, or in a manner that we have not authorized in writing. You must not directly or indirectly contest our right to our trademarks, trade secrets, or business techniques that are part of our business.

You must immediately notify us when you learn about an infringement of, or challenge to your use of, any of our trademarks, or any claim by any person of any rights in any trademarks. We will take the action we think appropriate, and we reserve the right to exclusively control any litigation or other proceeding arising out of any infringement, challenge, or claim or otherwise relating to any of the Marks. We will require you to execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of our counsel, be necessary or advisable to protect and maintain our interests in any such litigation or other proceeding or to otherwise protect and maintain our interest in the Marks. While we are not required to defend you against a claim against your use of our trademarks, we will reimburse you for your liability and reasonable costs in connection with defending our trademarks. To receive reimbursement, you must have notified us immediately when you learned about the alleged infringement or challenge.

You must modify or discontinue the use of a trademark if we modify or discontinue using it. If this happens, we are not required to reimburse you for any expenses you may incur in connection with modifying or discontinuing the use of a mark or any loss of goodwill associated with any modified or discontinued mark or for any expenditures made by you to promote a modified or substitute mark. We will, however, reimburse you for your tangible costs of compliance (for example, changing signs).

If Franchisor deems it necessary for Franchisee to modify or discontinue use of any of the Marks, and/or use one (1) or more additional or substitute trade names, trademarks, service marks or other commercial symbols, Franchisee shall comply with Franchisor’s directions within ten (10) business days after notice to Franchisee by Franchisor and subject to the limitations in Section 10.2. Franchisor shall not be required to reimburse Franchisee.

We know of no superior prior rights or infringing uses that could materially affect your use of our “DRNK”, “DRNK coffee + tea” or “D logo” trademarks in this state or any other state. The federal trademark registration for “Quench,” registration number 3220154, with a prior right to use for hotel, bar and restaurant services could materially affect the use of the “QWENCH juice bar” name in this state. While the US Patent & Trademark Office did grant us a registered trademark on “QWENCH juice bar” for juice and smoothies products in spite of registration number 3220154 on “Quench,” our registration does not completely eliminate a potential material affect of registration number 3220154 on our use of the QWENCH mark. The issue that a court considers is not necessarily the same as the issues the US Patent & Trademark Office faces. A court may consider whether or not there is a likelihood of confusion between use of our mark for juice bar services and juice and smoothies products and the “Quench” registration number 3220154 for hotel, bar and restaurant services.

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

We do not own any patents that are material to the franchise. We do claim copyright protection in our operations manual, this disclosure document, your franchise agreement, our websites and other materials we have created in connection with our business. We also claim proprietary rights to the information contained in the operations manual and other documentation. These documents and other proprietary materials have not been registered with any copyright office, but we reserve the right to register in the future.

You must tell us when you learn about the infringement on any of our copyrights or the unauthorized use of our proprietary information. We are not obligated to take action, but we will respond to your notification of unauthorized use as we think appropriate and we reserve the right to exclusively control any litigation or other proceeding arising out of any infringement, unauthorized use, challenge, or claim or otherwise relating to any of our copyrights or proprietary information. We will indemnify you for any losses you sustain as a result of any action brought by a third party concerning your use of our copyrights and proprietary information.

#### **ITEM 15: OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED BUSINESS**

We do not require that you personally supervise your franchised business, but we do recommend it. The business must be directly supervised by a full-time manager who has successfully completed our training program. The on-premises manager does not need to own any interest in the franchise, but cannot have an interest or business relationship with any of DRNK coffee + tea's or QWENCH juice bar's competitors. If you are a corporation, limited liability company or a partnership, the manager need not have an ownership interest in your entity. The manager must sign a written agreement to maintain confidentiality of our trade secrets.

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

We require you to offer and sell only those goods and services that we have approved (see Item 9).

You must offer all goods and services that we designate as required for all franchisees. These required services are the offering of core menu items of coffee and tea for DRNK coffee + tea franchises and juice and smoothies for our QWENCH juice bar franchises. You must obtain our prior consent to all equipment and supplies you use (See Item 8). These are described in our operations manual and other writings, as they may be updated periodically. You must use off-site distribution methods we require, and you are not permitted to use other off-site distribution methods without our prior approval.

We have the right to add additional authorized services that you will be required to offer. There are no limits on our right to do so except that your investment required to change required or authorized services will not exceed \$25,000 during the initial term of your franchise.

# **ITEM 17: RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION** **THE FRANCHISE RELATIONSHIP**

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

Provision	Section in Franchise or Other Agreement	Summary
a. Length of franchise term	4.1	The initial term is 10 years.
b. Renewal or extension of the term	4.2	If you are in good standing and satisfy certain conditions, you may renew for one additional 10-year term.
c. Requirement for franchisee to renew or extend	4.2, Exhibit 5	You must sign our then-current franchise agreement, pay a renewal fee, have continued right to maintain possession of your approved location or have a new approved location for the renewal term, and remodel (if necessary to comply with System requirements) and execute a general release. When renewing or extending your term, you may be asked to sign a contract with materially different terms and conditions than your original contract.
d. Termination by franchisee	16.1	You may terminate the Franchise Agreement if you are in compliance with it, we materially breach it, and we fail to begin to cure our breach within 30 days of receiving your written notice.
e. Termination by franchisor without cause	None	None.
f. Termination by franchisor with cause	16.2	We have the right to terminate the franchise agreement with cause if you default. Depending on the nature of the default, you may have the opportunity to cure the default prior to termination.

Provision	Section in Franchise or Other Agreement	Summary
g. "cause" defined – curable defaults	16.2.2	Failure to pay any amounts due to us (must cure default within 5 days after notice);; failure to maintain insurance (must cure within 10 days after notice); failure to comply with any mandatory specification, standard or operating procedure prescribed in the operations manual or otherwise prescribed in writing (must cure within 30 days after notice); or any other default not explicitly stated in the franchise agreement (must cure within 30 days after notice).
h. "cause" defined – non-curable defaults	16.2.1	Failure to select approved site within 6 months of signing your franchise agreement or begin operations within 12 months of signing your franchise agreement; failure of designated manager to complete training; material misrepresentation; failure after notice to refrain from activities likely to adversely affect our reputation or reputation of franchised business; conviction of felony or other crime; unauthorized use of operations manual or other proprietary information; failure of required parties to execution our non-disclosure and non-competition agreements or, if requested, fails to provide Franchisor with copies of all signed non-disclosure and non-competition agreements; abandonment of business for 5 or more consecutive days; unauthorized surrender or transfer of control of your business; termination of your store lease due to your default of such lease (where a "termination" includes our, our Affiliates, or another franchisee's assumption of such lease after your default); failure to maintain the business under the supervision of a designated manager following franchisee death or disability; submission of 2 or more reports understating amounts due by more than 3%; bankruptcy, insolvency or general assignment for the benefit of creditors; misuse and/or unauthorized use of our trademarks; failure on 2 or more occasions within any 12 month period to submit reports or records or to pay any fees to us or our affiliates; 2 or more violations of any health, safety or other laws, or operation of your business in a manner creating a health or safety hazard; taking any action reserved to us; failure to comply with applicable law after notice; breach of the franchise agreement or failure to comply with specifications on 2 or more occasions within any 12 months; or a default under any other agreement with us or our affiliates that gives us or our affiliate the right to terminate such agreement.

Provision	Section in Franchise or Other Agreement	Summary
i. Franchisee's obligations on termination/nonrenewal	17.1	You must: stop operating the franchised business; stop using any trade secrets, confidential information, the system and our trademarks; if requested, assign your interest in the franchise location to us; cancel or assign to us any assumed names; pay all sums owed to us including damages and costs incurred in enforcing the franchise agreement; return the operations manual, trade secrets and all other confidential information; assign your telephone and facsimile numbers to us; comply with the covenants not to compete and any other surviving provisions of the franchise agreement.
j. Assignment of contract by franchisor	18.1	There are no restrictions on our right to assign its interest in the franchise agreement.
k. "Transfer" by franchisee-definition	18.2	"Transfer" means to sell, assign, convey, give away, pledge, mortgage, sublicense or otherwise transfer, whether by operation of law or otherwise, any interest in the franchise agreement, the franchise granted to you, your approved location used in operating your business, its assets, or all or any part or all of you the ownership interest in franchisee.
l. Franchisor's approval of transfer by franchisee	18.2	You may not transfer your interest without our prior written consent.
m. Conditions for franchisor approval of transfer	18.2	If we have not exercised our right of first refusal; all obligations owed to us are paid; you and the transferee have signed a general release acceptable to us; the prospective transferee meets our business and financial standards; the transferee and its owners sign our franchise agreement; you provide us a copy of all contracts and agreements related to the transfer; you or the transferee pay a transfer fee of \$10,000; the transferee or its owners have agreed to be personally bound by all provisions of the franchise agreement; the transferee or its owners have agreed to make such capital expenditures, including capital expenditures for remodeling the store, as we deem appropriate and necessary to meet our then-current standards and specifications; if we so request, you have agreed to guarantee the transferee's performance; all third party consents and approvals are obtained; transferee and its owners have signed our form of non-competition (continued)

Provision	Section in Franchise or Other Agreement	Summary
		(continued from above) agreement; the transferee has agreed that its designated manager will complete the initial training program before assuming management of the franchised business; and the transferee has obtained all required insurance.
n. Franchisor's right of first refusal to acquire franchisee's business	19	We may match an offer for the franchised business or an ownership interest you propose to sell.
o. Franchisor's option to purchase franchisee's franchised business	17.4	Except as described in (n) above, we do not have the right to purchase your business; however, during the 30-day period after the termination or expiration of the franchise agreement, we have the right to purchase any assets of your business for fair market value.
p. Death or disability of franchisee	18.6	Following the death or incapacity of an owner of your business or the death or incapacity of any holder of a legal or beneficial interest in your business, you or your representative must transfer, subject to the terms of the franchise agreement, the individual's interest in the franchised business within 180 days of death or incapacity or we may terminate the franchise agreement.
q. Non-competition covenants during the term of the franchise	7.3	You, any owners of your business (and members of their families and households) and its officers, directors, executives, managers, professional staff and employees are prohibited from: attempting to divert any business or customer of the franchised business to a competitive business or causing injury or prejudice to the marks or the system; owning or working for a competitive business.
r. Non-competition covenants after the franchise is terminated or expires	17.2	For 2 years after the termination or expiration of the franchise agreement, you and other owners and others executing non-competition agreements are prohibited from: owning or working for a competitive business operating within 25 miles of your or any other the franchise location or soliciting or influencing any of our customers, employees or business associates to compete with or terminate their relationship with us.

Provision	Section in Franchise or Other Agreement	Summary
s. Modification of the agreement	9.2, 22.7 and 22.8	The franchise agreement can be modified only by written agreement between you and us. We may modify the operations manual without your consent if it does not materially alter your fundamental rights.
t. Integration/ merger clause	22.7	Only the terms of the franchise agreement and other related written agreements are binding (subject to applicable state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	23.6	Except for claims relating to the trademarks, confidential information, trade secrets and covenants not to compete, and subject to state law, all disputes must be arbitrated in Los Angeles, California.
v. Choice of forum	23.2	Subject to state law, any litigation must be pursued in courts located in Los Angeles, California.
w. Choice of law	23.1	Subject to state law, California Law applies; except that disputes over the Marks will be governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sec. 1051 et seq.) and disputes over copyrights will be governed by federal copyright laws of the United States.

See Exhibit H, Indiana Addendum to the disclosure document, for additional Item 17 disclosures required by the State of Indiana.

## ITEM 18: PUBLIC FIGURES

We do not presently use any public figures to promote our franchise.

## ITEM 19: FINANCIAL PERFORMANCE REPRESENTATION

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.

The following table and notes provide financial performance representations that are historical, and that are based on information from all existing DRNK coffee + tea, QWENCH juice bar and co-branded franchised and company-owned stores that have been open for business to the public for at least one year, during a one-year measuring period from January 1, 2018 through December 31, 2018. We have not audited this information, nor independently verified this information. Written substantiation of the data used in preparing this information will be made available upon reasonable request.

**Some outlets have sold this amount. Your individual results may differ. There is no assurance that you will sell as much.**

### **Company and Franchisee Owned Outlets**

The following table contains information regarding 2018 annual net sales of the 9 company and franchisee-owned outlets operating at least one year as of December 31, 2018.

<b>Store Model Type:</b>	<b>DRNK</b>	<b>QWENCH</b>	<b>Co-branded</b>	<b>Co-branded (short week)</b>
<b>Number of Stores in Category:</b>	2	4	1	2
<b>Annual Net Sales (Avg.):</b>	\$374,664	\$568,476,	\$1,116,751	\$376,063
<b>Ann. Net Sales (Median):</b>	\$374,664	\$530,710	\$1,116,751	\$376,063
<b>Ann. Net Sales (High):</b>	\$597,343	\$787,691	\$1,116,751	\$434,015
<b>Ann. Net Sales (Low):</b>	\$151,985	\$424,793	\$1,116,751	\$318,111

#### Notes:

“Net sales” includes all revenue from your franchise business excluding sales tax and authorized refunds, credits and allowances.

One of the short week co-branded stores has limited operating hours of 6:30 a.m. – 5 p.m. Monday through Friday, and is closed on all government holidays. One of the short week co-branded stores has limited operating hours of 7 a.m. – 3 p.m. Monday through Friday, and is closed on all school holidays

One DRNK-branded store (of two in such category, or half of such stores) and one QWENCH-branded store (of four in such category, or 25% of such stores) have consistently performed significantly better than the above averages and median values (with 2018 net sales of \$597,343 and \$787,691, respectively). These stores are located in territories in Hollywood and Downtown Los Angeles, respectively, with each area having a significant and affluent daytime business population greater than the other stores in its category, in addition to a more affluent residential population. In addition, one of the QWENCH-branded stores (of four in such category, or 25% of such stores) also exceeded the median value for that category, as shown on the table above, although it did not exceed the average value for that category.



As of December 31, 2018, there were 9 total company-owned and franchisee-owned stores in our system, and 3 licensed university-owned on-campus stores.

There are no material financial and operational characteristics of the company-owned outlets that we reasonably anticipate to differ materially from future operational franchise outlets.

Other than as set for above, we do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting [name, address, and telephone number], the Federal Trade Commission and the appropriate state regulatory agencies.

## ITEM 20: OUTLETS AND FRANCHISE INFORMATION

**Table No. 1**  
**Systemwide Outlet Summary**  
**For Years 2016 to 2018**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2016	9	10	+1
	2017	10	11	+1
	2018	11	16	+5
Company-Owned (Note 1)	2016	0	1	+1
	2017	1	1	0
	2018	1	0	-1
Total Outlets	2016	9	11	+2
	2017	11	12	+1
	2018	12	16	+4

Note 1: Company-owned outlets disclosed in the table above includes 1 outlet owned by affiliate DCT.

Note 2: Franchise-owned outlets disclosed in the above table include 2 on-campus stores opened in 2014 and 1 on-campus store opened in 2016 and operated by a university under license.

**Table No. 2**  
**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)**  
**For Years 2016 to 2018**

State	Year	Number of Transfers
California	2016	1
	2017	0
	2018	1
Total	2016	1
	2017	0
	2018	1

**Table No. 3**  
**Status of Franchised Outlets**  
**For Years 2016 to 2018**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
CA	2016	9	2	0	0	1	0	10
	2017	10	1	0	0	0	0	11
	2018	11	3	0	0	0	0	14
VA	2018	0	1	0	0	0	0	1
Saudi Arabia	2018	0	1	0	0	0	0	1
Total	2016	9	2	0	0	1	0	10
	2017	10	1	0	0	0	0	11
	2018	11	5	0	0	0	0	16

Note 1: Data includes 2 on-campus stores opened in 2014 and 1 on-campus store opened in 2016 and operated by a university under license.

Note 2: 2016 data includes 1 on-campus store opened in 2016 and operated by a university under license and 1 franchisee-owned outlet acquired by our affiliate DCT.

**Table No. 4**  
**Status of Company-Owned Outlets**  
**For Years 2016 to 2018**

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
California	2016	0	0	1	0	0	1
	2017	1	0	0	0	0	1
	2018	1	0	0	1	0	0
Total	2016	0	0	1	0	0	1
	2017	1	0	0	0	0	1
	2018	1	0	0	0	0	0

Note: 2016 data includes 1 franchisee-owned outlet acquired by our affiliate DCT.

**Table No. 5**  
**Projected Openings as of December 31, 2018**

<b>State</b>	<b>Franchise Agreements Signed but Outlet Not Yet Opened</b>	<b>Projected New Franchised Outlets in The Next Fiscal Year</b>	<b>Projected New Company-Owned Outlets in the Next Fiscal Year</b>
California	43	11	0
Colorado	1	1	0
Florida	3	1	0
Hawaii	6	1	0
Michigan	1	1	0
Nevada	1	0	0
New York	6	0	0
North Carolina	1	1	
Ohio	7	1	0
Oregon	2	1	0
Texas	17	2	0
Virginia	3	0	0
Ontario, CA	3	1	0
Total	103	20	0

A listing of the current franchise outlets and franchisees with their business address and business telephone number is set forth at Exhibit F to this disclosure document.

No franchisees left the system in the last fiscal year.

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

Franchisor is not selling any previously owned franchised outlets now under its control.

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with DRNK/QWENCH franchise system. You may wish to speak with current and former franchisees but be aware that not all such franchisees will be able to communicate with you.

As of the date of this disclosure document, there are no trademark-specific franchisee organizations sponsored or endorsed by us and no independent franchisee organizations have asked to be included in this disclosure document. There are no trademark-specific franchisee organizations associated with the franchise system being offered.

#### **ITEM 21: FINANCIAL STATEMENTS**

The audited financial statements prepared on April 19, 2019 for the year ended December 31, 2018, and on April 12, 2018 for the year ended December 31, 2017, and on April 14, 2017, for the year ended December 31, 2016 are attached in Exhibit E to this document.

#### **ITEM 22: CONTRACTS**

All proposed agreements regarding the franchise offering are attached: Franchise Agreement (Exhibit C to this disclosure schedule); General Release (Exhibit 1 to the Franchise Agreement); Non-disclosure and Non-competition Agreement (Exhibit 2 to the Franchise Agreement); Unlimited Guaranty and Assumption of Obligations (Exhibit 3 to the Franchise Agreement); Addendum to Franchise Agreement for SBA Loans (Exhibit 5 to the Franchise Agreement).

#### **ITEM 23: RECEIPTS**

Both your and our copy of the disclosure document receipt is located on the last 2 pages of this disclosure document.

## EXHIBIT A TO THE DISCLOSURE DOCUMENT

### LIST OF STATE ADMINISTRATORS

The following is a list of state administrators responsible for registration and review of franchises for these states. We may register in one or more of these states.

<b><u>CALIFORNIA</u></b> Department of Business Oversight 320 4 <sup>th</sup> Street, #750 Los Angeles, CA 90013 (213) 576-7500	<b><u>MICHIGAN</u></b> Michigan Department of Attorney General Consumer Protection Division Consumer Protection Division Antitrust and Franchise Unit 525 W. Ottawa Street, 6 <sup>th</sup> Floor Lansing, Michigan 48933 (517) 373-7117	<b><u>SOUTH DAKOTA</u></b> Department of Labor and Regulation Division of Securities 124 S. Euclid Ave., Suite 104 Pierre, South Dakota 57501 (605) 773-4823
<b><u>HAWAII</u></b> Commissioner of Securities Department of Commerce & Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722	<b><u>MINNESOTA</u></b> Department of Commerce Securities Unit 85 7 <sup>th</sup> Place East, Suite 280 St. Paul, Minnesota 55101 (651) 539-1638	<b><u>VIRGINIA</u></b> State Corporation Commission Division of Securities and Retail Franchising P.O. Box 1197 Richmond, Virginia 23218 (804) 371-9051
<b><u>ILLINOIS</u></b> Office of the Attorney General Franchise Division 500 South Second Street Springfield, Illinois 62706 (217) 782-4465	<b><u>NEW YORK</u></b> Office of the Attorney General Bureau of Investor Protection and Securities New York State Department of Law 120 Broadway, 23 <sup>rd</sup> Floor New York, New York 10271 (212) 416-8211	<b><u>WASHINGTON</u></b> Department of Financial Institutions Securities Division 150 Israel Road Southwest Tumwater, Washington 98501 (360) 902-8760
<b><u>INDIANA</u></b> Indiana Secretary of State Securities Division 302 West Washington Street, Room E-111 Indianapolis, Indiana 46204 (317) 232-6681	<b><u>NORTH DAKOTA</u></b> Securities Commissioner State Capitol – 5 <sup>th</sup> Floor 600 East Boulevard Avenue Bismarck, North Dakota 58505 (701) 328-4712	<b><u>WISCONSIN</u></b> Division of Securities Department of Financial Institutions Division of Securities 201 W. Washington Ave., Suite 300 Madison, Wisconsin 53703 (608) 267-9140
<b><u>MARYLAND</u></b> Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202 (410) 576-6360	<b><u>RHODE ISLAND</u></b> Department of Business Regulation, Securities Division John O. Pastore Complex, Bldg. 69-1 1511 Pontiac Avenue Cranston, RI 02920 (401) 462-9500	

## EXHIBIT B TO THE DISCLOSURE DOCUMENT

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### FRANCHISOR'S AGENTS FOR SERVICE OF PROCESS

#### **CALIFORNIA**

Frank J. Taboada  
Taboada Rochlin Govier LLP  
4212 E. Los Angeles Ave., Suite 3158  
Simi Valley, CA 93063

#### **ILLINOIS**

Illinois Attorney General  
500 South Second Street  
Springfield, Illinois 62706

#### **MARYLAND**

Maryland Securities Commissioner  
200 St. Paul Place  
Baltimore, Maryland 21202

#### **MICHIGAN**

Michigan Department of Commerce  
Corporations and Securities Bureau  
P.O. Box 30054  
6546 Mercantile Way  
Lansing, Michigan 48909

#### **NEW YORK**

Secretary of the State of New York  
99 Washington Avenue  
Albany, New York 12231

#### **VIRGINIA**

Clerk, State Corporation Commission  
1300 East Main Street, 1<sup>ST</sup> Floor  
Richmond, Virginia 23219

If a state is not listed, DRNK Coffee + Tea Franchising, LLC has not appointed an agent for service of process in that state in connection with the requirements of the franchise laws. There may be states in addition to those listed above in which DRNK Coffee + Tea Franchising, LLC has appointed an agent for service of process. There may also be additional agents appointed in some of the states listed.



# **DRNK COFFEE + TEA FRANCHISING FRANCHISE AGREEMENT**

**FRANCHISE AGREEMENT NO:**

**DATED:**

**FRANCHISEE:**

**FRANCHISEE PRINCIPALS/OWNERS:**

**FRANCHISE LOCATION:**

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6. ADDENDUM TO FRANCHISE AGREEMENT FOR SBA LOANS

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# DRNK/QWENCH FRANCHISE AGREEMENT

## PARTIES:

### "Franchisor"

DRNK Coffee + Tea Franchising, LLC,  
a California limited liability company  
Attn: Legal Department  
350 S Grand Ave., Suite 3070  
Los Angeles, CA 90071

### "Franchisee"

\_\_\_\_\_  
a(n) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**STORE NO:** \_\_\_\_\_

**EFFECTIVE DATE:** \_\_\_\_\_

---

This Franchise Agreement, dated as of the Effective Date set forth above is by and between DRNK Coffee + Tea Franchising, LLC, a California Limited Liability Company, ("Franchisor"), and \_\_\_\_\_, [an individual [or] business entity established in the State of \_\_\_\_\_] ("Franchisee") and is for the purpose of establishing a franchise relationship between the parties; whereas Franchisor intends to sell and Franchisee intends to own and operate a DRNK coffee + tea®, QWENCH juice bar® or Co-Branded Franchised Business. Franchisor and Franchisee, intending to be legally bound, agree as follows:

## §1 DEFINITIONS

Whenever used in this Agreement, the following words and terms have the following meanings:

**"Affiliate"** means any business entity that controls, is controlled by, or is under common control with Franchisor.

**"Agreement"** means this agreement entitled "DRNK/QWENCH Franchise Agreement" and all instruments supplemental hereto or in amendment or confirmation hereof.

**"Approved Location"** means the site for the operation of the Franchised Business selected by Franchisee and approved in writing by Franchisor.

**"Competitive Business"** means any business that offers or provides (or grants franchises or licenses to others to operate a business that offers or provides) services and products the same as or similar to those provided by Franchised Businesses or in which Trade Secrets or other Confidential Information could be used to the disadvantage of Franchisor, any Affiliate or its other franchisees; provided, however, that the term "Competitive Business" shall not apply to (a) any business operated by Franchisee under a Franchise Agreement with Franchisor, or (b) any business operated by a publicly-held entity in which Franchisee owns more than a five percent (5%) legal or beneficial interest.

**"Confidential Information"** means information used in or related to DRNK/QWENCH Franchised Businesses and not commonly known by or available to the public, including, without limitation, Trade Secrets and any other information identified or labeled as confidential when delivered by Franchisor.

**“Operations Manual”** means the DRNK/QWENCH Operations Manual, whether in paper or electronic form, and any other items as may be provided, added to, changed, modified or otherwise revised by Franchisor from time to time that contain or describe the standards, methods, procedures and specifications of the System, including other operations, administration and managers’ manuals and all books, computer programs, password-protected portions of an Internet site, pamphlets, memoranda and other publications prepared by, or on behalf of, Franchisor.

**“Designated Manager”** means the individual designated by Franchisee as having primary responsibility for managing the daily affairs of the Franchised Business.

**“Effective Date”** means the date set forth on the face of this Agreement as the “Effective Date” and on which Franchisor and Franchisee fully execute this Agreement, thereby commencing its effectiveness and term.

**“Franchise”** means the right granted to Franchisee by Franchisor to use the System and the Marks.

**“Franchised Business”** means the DRNK/QWENCH business to be established and operated by Franchisee pursuant to this Agreement.

**“Gross Sales”** means the aggregate of all revenue collected from all sources in connection with the Franchised Business, including, but not limited to any sales or other income resulting from Franchisee’s conduct of any business outside of the Franchised Business involving the System, whether for check, cash, credit or otherwise including, without limitation, all proceeds from any business interruption insurance, but excluding (a) any revenue Franchisee remits to a customer or property owner or collection agency that Franchisee is contractually obligated to remit, (b) any chargeback fees Franchisee pays to a collection agency, (c) any sales and equivalent taxes that are collected by Franchisee for or on behalf of any governmental taxing authority and paid thereto, and (d) any rebate received by Franchisee from a manufacturer or supplier.

**“Incapacity”** means the inability of Franchisee, or any holder of a legal or beneficial interest in Franchisee, to operate or oversee the operation of the Franchised Business on a regular basis by reason of any continuing physical, mental or emotional condition, chemical dependency or other limitation;

**“Marks”** means the trade name or trademark “DRNK coffee + tea” or “QWENCH juice bar” and such other trade names, trademarks, service marks, trade dress, designs, graphics, logos, emblems, insignia, fascia, slogans, drawings and other commercial symbols as Franchisor may designate to be used in connection with DRNK/QWENCH Franchised Businesses;

**“System”** means the uniform standards, methods, procedures and specifications developed by Franchisor and as may be added to, changed, modified, withdrawn or otherwise revised by Franchisor for the operation of DRNK/QWENCH Franchised Businesses; and

**“Trade Secrets”** means information in any form (including, but not limited to, technical or non-technical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans, passwords, lists of actual or potential customers or suppliers) related to or used in DRNK/QWENCH Franchised Businesses that are not commonly known by or available to the public and that: (a) derives economic value, actual or potential, from not being generally known to, and not being readily ascertained by proper means by, other persons who can obtain economic value from its disclosure or use; and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

## **§2 GRANT OF FRANCHISE AND APPROVED LOCATION**

### **2.1 Grant**

Franchisor hereby grants to Franchisee, upon the terms and conditions herein contained, a revocable, limited license to operate one (1) DRNK coffee + tea®, QWENCH juice bar® or Co-Branded Franchised Business using the System and Marks.

### **2.2 Approved Location**

The street address (or detailed description of the premises) of the Approved Location for the operation of the Franchised Business is: \_\_\_\_\_

\_\_\_\_\_

### **2.3 Approved Location Not Determined**

If the Approved Location is determined as of the Effective Date, then this Section shall be inapplicable. If the Approved Location is not determined as of the Effective Date, then the geographic area in which the Approved Location is to be located shall be within the geographic area described below ("Designated Area"). Franchisee shall select and submit possible sites for Franchisor's evaluation in accordance with Section 5.1. When the Approved Location is determined, its address shall be inserted into Section 2.2, shall be initialed and dated by Franchisee and Franchisor and the Designated Area shall lapse. The failure to insert such address into Section 2.2, shall not automatically affect the enforceability of this Agreement. The Designated Area is delineated for the sole purpose of site selection and does not confer any territorial exclusivity or protection. A detailed description of the geographic area or boundaries of the Designated Area is: \_\_\_\_\_

\_\_\_\_\_

### **2.4 Territory**

Franchisee will not receive an exclusive territory. Franchisee shall open the Franchised Business in location to be secured by Franchisee and approved by Franchisor as described in Section 5 of this Agreement.

### **2.5 Approved Relocation**

If Franchisee wishes to relocate to a new Approved Location, Franchisee shall select and submit possible sites for Franchisor's evaluation in accordance with Sections 2.3 and 5.1. Franchisor shall not unreasonably withhold its approval.

### **2.6 Additional Franchise Outlets**

Franchisee shall not be permitted to open additional Franchised Businesses under this Agreement. Additional franchises shall be governed by an additional franchise agreement.

### **2.7 Sub-Franchising/Agents**

Franchisee shall not sublicense the use of the System or Marks to any person or entity. Except as permitted in Section 18, Franchisee shall not grant any person or entity the right to perform any part of Franchisee's rights or obligations licensed hereunder.

## **2.8 Franchisor's Rights**

2.8.1 Franchisee acknowledges that except to the extent provided in Section 2.4 above, Franchisor expressly retains all rights and discretion with respect to the Marks and System, including the right to:

2.8.1.1 establish, own or operate, and license others to establish, own or operate, DRNK/QWENCH Franchised Businesses including the DRNK branded stores, QWENCH branded stores or Co-Branded Stores;

2.8.1.2 establish, own or operate, and license others to establish, own or operate other businesses under other systems using other trademarks anywhere regardless of the proximity to the Franchised Business;

2.8.1.3 be acquired (regardless of the form of transaction) by any business, even if the other business operates, franchises and/or licenses Competitive Businesses anywhere regardless of the proximity to the Franchised Business;

2.8.1.4 provide the services and sell the products authorized for the Franchised Businesses using the Marks or other trademarks, service marks and commercial symbols through an alternate channel of distribution on such terms and conditions as Franchisor deems appropriate; and

2.8.1.5 purchase or otherwise acquire the assets or controlling ownership of one (1) or more businesses identical or similar to the Franchised Business some or all of which may be located anywhere regardless of the proximity to the Franchised Business.

2.8.2 If Franchisor purchases or acquires such businesses anywhere regardless of the proximity to the Franchised Business that are not franchised or licensed, Franchisor may, in its sole discretion:

2.8.2.1 offer to sell any such businesses to Franchisee or to any third party at the business's fair market value to be operated as a DRNK coffee + tea®, QWENCH juice bar or Co-Branded Franchised Business; or

2.8.2.2 offer Franchisee the opportunity to operate such business(s) in partnership with Franchisor (or an Affiliate) under the business(s) existing trade name or a different trade name.

## **2.9 Marketing and Solicitation Restrictions**

2.9.1 Except as part of cooperative advertising implemented pursuant to Section 11.4, Franchisee shall not advertise in any media whose primary circulation is within the area of primary responsibility of another franchisee. Franchisor shall make reasonable efforts to enforce these restrictions with regard to Franchisee and any other Franchised Businesses, but under no circumstances shall Franchisor be required to engage in litigation or similar actions with regard to these restrictions.

2.9.2 Despite the marketing restriction in the previous section, Franchisee shall be permitted to serve any customers regardless of their home or business location at their Approved Location.

## **§3 FEES**

### **3.1 Franchise Fee**

Upon execution of this Agreement, Franchisee shall pay a fee ("Franchise Fee") to Franchisor of FORTY THOUSAND DOLLARS (\$40,000). The Franchise Fee shall be deemed fully earned upon execution of this Agreement and is nonrefundable, except under certain conditions set forth under Sections 5.2, and 8.3. The Franchise Fee is payment, in part, for expenses incurred by Franchisor in furnishing assistance and services to Franchisee as set forth in this Agreement and for costs incurred

by Franchisor, including general sales and marketing expenses, training, legal, accounting and other professional fees.

### **3.2 Monthly Royalty Fee**

On or before the fifteenth (15<sup>th</sup>) calendar day of each Month, for so long as this Agreement shall be in effect, Franchisor shall be entitled to a fee ("Royalty Fee") equal to six percent (6%) of the Gross Sales for the previous month. ("Gross Sales" includes all revenue from your franchise business excluding sales tax and authorized refunds, credits and allowances.) Franchisee shall pay the Monthly Royalty Fee in the following manner: Royalty Fees will be deducted automatically through EFT or pre-authorized credit card debit; and each monthly Royalty Fee payment made by Franchisee shall accompany a sales report included directly from the required POS System. If Franchisor requires Franchisee to pay Royalty Fees through electronic transfer as set forth in Section 3.4, such reports shall instead be submitted to Franchisor via facsimile transmission, e-mail or intranet system.

### **3.3 Taxes**

Franchisee shall pay to Franchisor an amount equal to all sales taxes, excise taxes, use taxes, withholding taxes and similar taxes imposed on the fees payable by Franchisee to Franchisor hereunder and on services or goods furnished to Franchisee by Franchisor at the same time as Franchisee remits such fees to Franchisor, whether such services or goods are furnished by sale, lease or otherwise, unless the tax is an income tax assessed on Franchisor for doing business in the state where the Approved Location is located.

### **3.4 Late Fees**

All Royalty Fees, Marketing Fund Contributions, amounts due for purchases by Franchisee from Franchisor and other amounts that are not received by Franchisor within five (5) days after the due date shall incur late fees at the rate of one and one-half percent (1.5%) per month (or the highest rate allowed by the law of the state where Franchisee is located), from the date payment is due to the date payment is received by Franchisor. Franchisee shall pay Franchisor for all costs incurred by Franchisor in the collection of any unpaid and past due Royalty Fees, Marketing Fund Contributions or any other amounts due Franchisor, including reasonable accounting and legal fees. This Section shall not constitute an agreement by Franchisor to accept any payments after the due date or a commitment by Franchisor to extend credit to or otherwise finance Franchisee.

### **3.5 Application of Payments**

Notwithstanding any designation by Franchisee, Franchisor shall have the right to apply any payments by Franchisee to any past due indebtedness of Franchisee for Royalty Fees, Marketing Fund Contributions, purchases from Franchisor or any other amount owed to Franchisor in any proportion or priority.

## **§4 TERM AND RENEWAL**

### **4.1 Initial Term**

This Agreement shall be effective and binding for an initial term of ten (10) years from the Effective Date, unless sooner terminated pursuant to Section 16.

### **4.2 Successor Franchise**

Subject to the conditions below, Franchisee has the right to obtain a Successor Franchise at the expiration of the term of this Agreement by entering into the then current franchise agreement with Franchisor. To qualify for a successor franchise, each of the following conditions shall have been fulfilled and remain true as of the last day of the term of this Agreement:



4.2.1 Franchisee has, during the entire term of this Agreement, fully complied with all material provisions of this Agreement;

4.2.2 Franchisee has access to and, for the duration of the successor franchise, the right to remain in possession of the Approved Location, or a suitable substitute location approved by Franchisor, which is in full compliance with Franchisor's then-current specifications and standards;

4.2.3 Franchisee has, at its expense, made such capital expenditures as were necessary to maintain uniformity with any Franchisor-required System modifications such that the Franchised Business reflects Franchisor's then-current standards and specifications;

4.2.4 Franchisee has satisfied all monetary obligations owed by Franchisee to Franchisor (or any Affiliate), and has timely met these obligations throughout the term of this Agreement;

4.2.5 Franchisee is not in default of any provision of this Agreement or any other agreement between Franchisee and Franchisor;

4.2.6 Franchisee has given written notice of its intent to operate a successor franchise to Franchisor not less than nine (9) months nor more than twelve (12) months prior to the end of the term of this Agreement;

4.2.7 Franchisee's written notice must be accompanied by a non-refundable renewal fee equal to Ten Thousand Dollars (\$10,000.00).

4.2.8 Franchisee has executed Franchisor's then-current form of franchise agreement that may be different from this Agreement (or has executed other documents at Franchisor's election that modify this Agreement to reflect the fact that the Franchise Agreement relates to the grant of a successor franchise), which franchise agreement shall supersede this Agreement in all respects, and the terms of which may differ from the terms of this Agreement by requiring, among other things, a different percentage Royalty Fee or Marketing Fund Contribution; provided, however, that Franchisee shall not be required to pay either a renewal fee or the then-current Franchise Fee;

4.2.9 Franchisee has complied with Franchisor's then-current qualifications for a new franchisee and has agreed to comply with any training requirements; and

4.2.10 Franchisee has executed a general release, in a form the same as or similar to the General Release attached as Exhibit 1, of any and all claims against Franchisor, any Affiliate and against their officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities), except to the extent prohibited by the laws of the state where the Franchised Business is located.

## **§5 APPROVED LOCATION**

### **5.1 Selection of Site**

Franchisee shall select their facility to lease or purchase for the operation of the Franchised Business to be approved by Franchisor ("Approved Location"). If an Approved Location for the Franchised Business has not been determined as of the Effective Date, Franchisee shall promptly select a site for the Franchised Business and shall notify Franchisor of such selection. Franchisor shall evaluate the site and notify Franchisee of its approval or disapproval of the site within a reasonable time (usually thirty (30) days) of receiving notice of the site from Franchisee. If Franchisor approves of such selection, the site shall be designated as the Approved Location and the date that Franchisor notifies Franchisee that Franchisor has approved the Approved Location shall be the "Site Approval Date". If Franchisor does not approve of such selection, Franchisee shall select and notify Franchisor of new sites until Franchisor approves a site for the Franchised Business. Franchisor shall provide Franchisee with general guidelines to assist Franchisee in selecting a site suitable for the Approved Location. Franchisor has the right to approve or disapprove a proposed location based on such factors

as it deems appropriate, including, without limitation, the condition of the premises, demographics of the surrounding area, proximity to other DRNK coffee + tea®, QWENCH juice bar or Co-Branded Franchised Businesses, proximity to Competitive Businesses, or the size of the location and lease requirements. Franchisee shall not locate the Franchised Business on a selected site without the prior written approval of Franchisor. ***Franchisor does not represent that it, or any of its Affiliates, owners, employees or agents, have special expertise in selecting sites. Neither Franchisor's assistance nor approval is intended to indicate or indicates that the Franchised Business will be profitable or successful at the Approved Location. Franchisee is solely responsible for identifying the Approved Location.***

## **5.2 Failure to Select Site**

Should Franchisee fail to obtain an Approved Location within six (6) months after the Effective Date, Franchisor has the right to terminate this Agreement. The amount of the Franchise Fee retained shall be specifically understood and agreed by the parties to be in consideration of the services provided, time expended, work performed, and other efforts of Franchisor up to the date of Franchisee's failure to timely commence operations of the Franchised Business and shall not be construed as nor considered to be a penalty. If this Agreement is terminated pursuant to this Section, Franchisor shall terminate any future obligations of Franchisee to Franchisor upon Franchisor's receipt of a general release, the same as or similar to the General Release attached as Exhibit 1, releasing any and all claims against Franchisor, any Affiliate and their officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities).

## **5.3 Lease of Approved Location**

If Franchisee is to execute a lease for, or a binding agreement to purchase, the Approved Location, Franchisee must obtain Franchisor's approval of the terms. Franchisor shall not unreasonably withhold its approval. ***Franchisor's review of a lease or purchase agreement, or any advice or recommendation offered by Franchisor, shall not constitute a representation or guarantee that Franchisee will succeed at the Approved Location nor constitute an expression of Franchisor's opinion regarding the terms of such lease or purchase agreement. Franchisee acknowledges and agrees that Franchisee shall solely rely on its review of any such lease or purchase agreement.*** Franchisor shall be entitled to require that nothing therein contained is contradictory to, or likely to interfere with, Franchisor's rights or Franchisee's duties under this Agreement. Franchisee shall take all actions necessary to maintain the lease, if any, of the Approved Location while this Agreement is in effect. Any default for which the lease may be terminated shall also be deemed a default hereunder and the time to cure the same shall expire when the lease is terminated. Franchisor has the right to require that the lease for the Approved Location be collaterally assigned by Franchisee to Franchisor, pursuant to the terms of its standard collateral assignment of lease form, to secure performance by Franchisee of its obligation under this Agreement. Franchisor's approval of a lease shall be conditioned upon inclusion of terms in the lease acceptable to Franchisor and, at Franchisor's option, the lease shall contain such provisions as Franchisor may reasonably require, including but not limited to:

5.3.1 a provision reserving to Franchisor the right, but not the obligation, at Franchisor's election, to receive an assignment of the leasehold interest without payment of any assignment fee or similar charge and without a requirement for the payment of an additional security deposit or any increase in rent or other fees upon termination or expiration of the Franchise. The lessor agrees that, before the effective date of any assignment of the lease to Franchisor (or its designee), Franchisee shall be solely responsible for all obligations, debts and payments under the lease. Franchisee shall not be entitled to a return of its security deposit;

5.3.2 a provision requiring the lessor to provide Franchisor with a copy of any written notice of deficiency sent by the lessor to Franchisee, and granting to Franchisor the right (but not the obligation)

to cure any deficiency under the lease should Franchisee fail to do so within fifteen (15) days after the expiration of the period in which Franchisee may cure the default;

5.3.3 a provision requiring the lessor to provide Franchisor (at the same time lessor provides to Franchisee) a copy of all lease amendments and assignments, and a copy of all letters and notices lessor sends to Franchisee relating to the lease or the leased premises;

5.3.4 a provision permitting Franchisor to enter the leased premises to make any modifications or alterations necessary in Franchisor's sole discretion to protect the System and the Marks without being guilty of trespass, or other tort or other crime;

5.3.5 a provision allowing Franchisee to display the Marks in accordance with the specifications required by the Operations Manual, subject only to the provisions of applicable law;

5.3.6 a provision prohibiting the premises from being used for any purpose other than the operation of the Franchised Business;

5.3.7 a provision allowing Franchisor, upon expiration and non-renewal or termination of the lease or the Franchise Agreement, to enter the premises and remove any interior and exterior signs containing the Marks and trade fixtures;

5.3.8 a provision stating that upon default of this Agreement, Franchisor or its nominee has the right, but not the obligation, to take possession of the Approved Location and operate the Franchised Business and notwithstanding Franchisor's (or the nominee's) possession, the lessor agrees that during all times prior to an assignment of the lease to Franchisor (or its designee), Franchisee shall be solely responsible for all obligations, debts and payments under the lease incurred prior to or during such possession and prior to such assignment; and

5.3.9 a provision stating that lessor shall not amend or otherwise modify the lease in any manner that would affect any of the foregoing provisions to be included in the lease set forth above without Franchisor's prior written consent.

#### **5.4 Development of Approved Location**

Franchisor shall make available to Franchisee, at no charge to Franchisee, specifications for the development of the Approved Location, including specifications for improvements, supplies and equipment that are necessary for the development and operation of a DRNK/QWENCH Franchised Business. Franchisee shall cause the Approved Location to be developed, equipped and improved in accordance with such specifications within twelve (12) months of the Site Approval Date. In connection with the development of the Approved Location, Franchisee shall:

5.4.1 obtain all permits and licenses required for operation of the Franchised Business, and certify in writing that all such permits and certifications have been obtained;

5.4.2 purchase any supplies or inventory necessary for the operation of the Franchised Business, as specified in the Operations Manual;

5.4.3 purchase and install all equipment, furniture and fixtures, including any software and computer equipment, required by Franchisor for the operation of the Franchised Business; and

5.4.4 establish broadband or high-speed Internet access and obtain at least one (1) telephone number and one (1) facsimile number solely dedicated to the Franchised Business.

#### **5.5 Failure to Develop Approved Location**

Should Franchisee fail to develop the Approved Location within twelve (12) months after the Site Approval Date, Franchisor has the right to terminate this Agreement. If this Agreement is terminated pursuant to this Section, Franchisor shall terminate any future obligations of Franchisee to Franchisor upon Franchisor's receipt of a general release, the same as or similar to the General

Release attached as Exhibit 1, releasing any and all claims against Franchisor, any Affiliate and their officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities). Franchisor shall retain the Franchise Fee. The amount of the Franchise Fee retained shall be specifically understood and agreed by the parties to be in consideration of the services provided, time expended, work performed, and other efforts of Franchisor up to the date of Franchisee's failure to timely commence operations of the Franchised Business and shall not be construed as nor considered to be a penalty.

## **5.6 Opening**

Before opening the Franchised Business and commencing business, Franchisee must:

5.6.1 fulfill all of the obligations of Franchisee pursuant to the other provisions of this Section 5;

5.6.2 furnish Franchisor with copies of all insurance policies required by this Agreement, or by the lease (if any), or such other evidence of insurance coverage and payment of premiums as Franchisor may request;

5.6.3 complete initial training to the satisfaction of Franchisor;

5.6.4 hire and train the personnel necessary or required for the operation of the Franchised Business;

5.6.5 if Franchisee is a business entity, cause each of its stock certificates or other ownership interest certificates to be conspicuously endorsed upon the face thereof a statement in a form satisfactory to Franchisor that such ownership interest is held subject to, and that further assignment or transfer thereof is subject to, all restrictions imposed upon transfers and assignments by this Agreement;

5.6.6 obtain Franchisor's permission and approval of an opening date; Franchisor shall not unreasonably withhold consent to open. Permission to open shall be based on Franchisor's determination that Franchisee is ready to open and satisfactorily prepared to operate; and

5.6.7 pay in full all amounts due to Franchisor.

## **5.7 Failure to Open**

Time is of the essence. Should Franchisee fail to commence operations of the Franchised Business within twelve (12) months after the Site Approval Date, Franchisor has the right to terminate this Agreement. If this Agreement is terminated pursuant to this Section, Franchisor shall terminate any future obligations of Franchisee to Franchisor upon Franchisor's receipt of a general release, the same as or similar to the General Release attached as Exhibit 1, releasing any and all claims against Franchisor, any Affiliate and their officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities). Franchisor shall retain the Franchise Fee. The amount of the Franchise Fee retained shall be specifically understood and agreed by the parties to be in consideration of the services provided, time expended, work performed, and other efforts of Franchisor up to the date of Franchisee's failure to timely commence operations of the Franchised Business and shall not be construed as nor considered to be a penalty.

## **5.8 Use of Approved Location**

Franchisee shall not use the Approved Location for any purpose other than for the operation of a Franchised Business in full compliance with this Agreement and the Operations Manual, unless approved in writing by Franchisor.

## **5.9 Relocation**

Franchisee shall not relocate the Approved Location without the prior written consent of Franchisor. If the Approved Location is leased, and the lease expires or terminates through no fault of Franchisee or if the Approved Location's premises is destroyed, condemned or otherwise rendered unusable, Franchisee may request the right to relocate the Approved Location either permanently or temporarily as appropriate under the circumstances and Franchisor shall not unreasonably withhold its consent to such relocation. Should Franchisee desire to relocate the Approved Location for any other reason, Franchisee shall request the right and Franchisor may approve or disapprove such request. Any relocation of the Approved Location shall be at Franchisee's sole expense and shall proceed in accordance with the requirements set forth in Sections 5.1 through 5.8. Franchisor has the right to charge Franchisee for any costs incurred by Franchisor in providing assistance to Franchisee, including, but not limited to, legal and accounting fees. Notwithstanding the foregoing, Franchisor has no obligation to provide relocation assistance. If Franchisor and Franchisee do not agree upon a substitute site within ninety (90) days after the lease expires or is terminated or the Approved Location is rendered unusable, this Agreement shall terminate as provided in Section 16.2.1.1.

## **§6 PROPRIETARY MARKS**

### **6.1 Ownership**

Franchisee's right to use the Marks is derived solely from this Agreement, is nonexclusive and is limited to the conduct of business by Franchisee pursuant to, and in compliance with, this Agreement and all applicable standards, specifications and operating procedures prescribed from time to time by Franchisor. Any unauthorized use of the Marks by Franchisee is a breach of this Agreement and an infringement of the rights of Franchisor in and to the Marks. Franchisee's use of the Marks, and any goodwill created thereby, shall inure to the benefit of Franchisor. Franchisee shall not at any time acquire an ownership interest in the Marks by virtue of any use it may make of the Marks. This Agreement does not confer any goodwill, title or interest in the Marks to Franchisee. Franchisee shall not, at any time during the term of this Agreement or after its termination or expiration, contest the validity or ownership of any of the Marks or assist any other person in contesting the validity or ownership of any of the Marks.

### **6.2 Limitations on Use**

Franchisee shall not use any Mark or portion of any Mark as part of any business entity name. Franchisee shall not use any Mark in connection with the sale of any unauthorized product or service or in any other manner not expressly authorized in writing by Franchisor. Franchisee shall give such notices of trademark and service mark registrations as Franchisor specifies and obtain such fictitious or assumed name registrations as may be required under applicable law to do business as a Franchised Business. Franchisee shall not register or seek to register as a trademark or service mark, either with the United States Patent and Trademark Office or any state or foreign country, any of the Marks or a trademark or service mark that is confusingly similar to any Mark licensed to Franchisee. Franchisee shall include on its letterhead, forms, cards and other such identification, and shall display at the Approved Location, a prominent notice stating that the Franchised Business is an "Independently Owned and Operated Franchise" of Franchisee.

### **6.3 Notification of Infringements and Claims**

Franchisee shall immediately notify Franchisor of any infringement of the Marks or challenge to its use of any of the Marks or claim by any person of any rights in any of the Marks. Franchisee shall not communicate with any person other than Franchisor and Franchisor's counsel in connection with any such infringement, challenge or claim; provided, however, Franchisee may communicate with Franchisee's counsel at Franchisee's expense. Franchisor has the right to take such action as it deems appropriate and the right to exclusively control any litigation or other proceeding arising out of any infringement, challenge, or claim or otherwise relating to any of the Marks. Franchisee shall execute

any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of Franchisor's counsel, be necessary or advisable to protect and maintain Franchisor's interests in any such litigation or other proceeding or to otherwise protect and maintain Franchisor's interest in the Marks.

#### **6.4 Indemnification for Use of Marks**

Franchisor shall reimburse Franchisee for all expenses reasonably incurred by Franchisee in any trademark or similar proceeding disputing Franchisee's authorized use of any Mark, provided that Franchisee has complied with the provisions of Section 6.3 and has complied with this Agreement and Franchisor's directions in responding to such proceeding. At Franchisor's option, Franchisor or its designee may defend and control the defense of any proceeding arising directly from Franchisee's use of any Mark. This indemnification shall, not include the expense to Franchisee of removing signage or discontinuance of the use of the Marks; not apply to litigation between Franchisor and Franchisee wherein Franchisee's use of the Marks is disputed or challenged by Franchisor; not apply to any separate legal fees or costs incurred by Franchisee in seeking independent counsel separate from the counsel representing Franchisor and Franchisee in the event of litigation disputing Franchisor and Franchisee's use of the Marks.

#### **6.5 Discontinuance of Use**

If Franchisor deems it necessary for Franchisee to modify or discontinue use of any of the Marks, and/or use one (1) or more additional or substitute trade names, trademarks, service marks or other commercial symbols, Franchisee shall comply with Franchisor's directions within ten (10) business days after notice to Franchisee by Franchisor and subject to the limitations in Section 10.2. Franchisor shall not be required to reimburse Franchisee for its expenses in modifying or discontinuing the use of a Mark or any loss of goodwill associated with any modified or discontinued Mark or for any expenditures made by Franchisee to promote a modified or substitute Mark.

#### **6.6 Right to Inspect**

To preserve the validity and integrity of the Marks licensed hereunder, and to ensure that Franchisee is properly employing the Marks in the operation of the Franchised Business, Franchisor and its designees have the right to enter and inspect the Approved Location at all reasonable times and, additionally, have the right to observe the manner in which Franchisee renders services and conducts activities and operations, and to inspect facilities, equipment, products, supplies, reports, forms and documents and related data to ensure that Franchisee is operating the Franchised Business in accordance with the quality control provisions and performance standards established by Franchisor. Franchisor and its agents shall have the right, at any reasonable time, to remove sufficient quantities of products, supplies or other items to test whether such products or items meet Franchisor's then-current standards. Franchisor or its designee has the right to observe Franchisee and its employees during the operation of the Franchised Business and to interview and survey (whether in person or by mail) customers and employees and to photograph or videotape the operations.

#### **6.7 Franchisor's Sole Right to Domain Name**

Franchisee shall not advertise on the Internet using, or establish, create or operate an Internet site or website using a domain name or uniform resource locator containing, the Marks or the words "DRNK coffee + tea" or "QWENCH juice bar" or any variation thereof without Franchisor's written approval. Franchisor is the sole owner of all rights, title and interest in and to such domain names as Franchisor shall designate in the Operations Manual.

### **§7 TRADE SECRETS AND OTHER CONFIDENTIAL INFORMATION**

#### **7.1 Confidentiality of Trade Secrets and Other Confidential Information**

Franchisee acknowledges that Franchisor shall disclose Trade Secrets and other Confidential Information to Franchisee during the training program, through the Operations Manual, and as a result of guidance furnished to Franchisee during the term of this Agreement. Franchisee shall not acquire any interest in the Trade Secrets or other Confidential Information, other than the right to use it in the development and operation of the Franchised Business and in performing its duties during the term of this Agreement. Franchisee acknowledges that the use or duplication of the Trade Secrets or other Confidential Information in any other business venture would constitute unfair competition. Franchisee acknowledges that the Trade Secrets and other Confidential Information are proprietary and are disclosed to Franchisee solely on the condition that Franchisee (and all holders of a legal or beneficial interest in Franchisee and all officers, directors, executives, managers and members of the professional staff of Franchisee): (a) shall not use the Trade Secrets or other Confidential Information in any other business or capacity; (b) shall maintain the absolute confidentiality of the Trade Secrets and other Confidential Information during and after the term of this Agreement; (c) shall not make any unauthorized copies of any portion of the Trade Secrets or other Confidential Information disclosed in written or other tangible form; and (d) shall adopt and implement all reasonable procedures prescribed from time to time by Franchisor to prevent unauthorized use or disclosure of the Trade Secrets and other Confidential Information. Franchisee shall enforce this Section as to its employees, agents and representatives and shall be liable to Franchisor for any unauthorized disclosure or use of Trade Secrets or other Confidential Information by any of them.

## **7.2 Additional Developments**

All ideas, concepts, techniques or materials concerning the System or developed, in whole or in part, using Trade Secrets or other Confidential Information, whether or not protectable intellectual property and whether created by or for Franchisee or its owners or employees, shall be promptly disclosed to Franchisor and shall be deemed the sole and exclusive property of Franchisor and works made-for-hire for Franchisor, and no compensation shall be due to Franchisee or its owners or employees therefore, and Franchisee agrees to assign to Franchisor all right, title and interest in any intellectual property so developed. Franchisor has the right to incorporate such items into the System. To the extent any item does not qualify as a “work made-for-hire” for Franchisor, Franchisee shall assign, and by this Agreement, does assign, ownership of that item, and all related rights to that item, to Franchisor and shall sign any assignment or other document as Franchisor requests to assist Franchisor in obtaining or preserving intellectual property rights in the item. Franchisor shall disclose to Franchisee concepts and developments of other franchisees that are made part of the System. As Franchisor may reasonably request, Franchisee shall take all actions to assist Franchisor’s efforts to obtain or maintain intellectual property rights in any item or process related to the System, whether developed by Franchisee or not.

## **7.3 Exclusive Relationship**

Franchisee acknowledges that Franchisor would be unable to protect the Trade Secrets and other Confidential Information against unauthorized use or disclosure and would be unable to encourage a free exchange of ideas and information among DRNK/QWENCH franchisees if owners of Franchised Businesses and members of their immediate families or households were permitted to hold an interest in or perform services for any Competitive Business. Therefore, during the term of this Agreement, neither Franchisee nor any holder of a legal or beneficial interest in Franchisee (or any member of their immediate families or households), nor any officer, director, executive, manager or member of the professional staff of Franchisee, either directly or indirectly, for themselves, or through, on behalf of or in conjunction with any person, partnership, corporation, limited liability company or other business entity, shall:

7.3.1 divert or attempt to divert any business or customer of the Franchised Business to any Competitive Business, by direct or indirect inducement or otherwise, or do or perform, directly or

indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks or the System;  
or

7.3.2 own an interest in, manage, operate, or perform services for any Competitive Business wherever located.

#### **7.4 Non-disclosure and Non-competition Agreements with Certain Individuals**

Franchisor has the right to require any holder of a legal or beneficial interest in Franchisee (and any member of their immediate families or households), and any officer, director, executive, manager or member of the professional staff of Franchisee to execute a non-disclosure and non-competition agreement, in a form the same as or similar to the Non-disclosure and Non-competition Agreement attached as Exhibit 2, upon execution of this Agreement or prior to each such person's affiliation with Franchisee. Upon Franchisor's request, Franchisee shall provide Franchisor with copies of all non-disclosure and non-competition agreements signed pursuant to this Section. Such agreements shall remain on file at the offices of Franchisee and are subject to audit or review as otherwise set forth herein. Franchisor shall be a third-party beneficiary with the right to enforce covenants contained in such agreements.

#### **7.5 Reasonableness of Restrictions**

Franchisee acknowledges that the restrictive covenants contained in this Section are essential elements of this Agreement and that without their inclusion, Franchisor would not have entered into this Agreement. Franchisee acknowledges that each of the terms set forth herein, including the restrictive covenants, is fair and reasonable and is reasonably required for the protection of Franchisor, the System and the Marks and Franchisee waives any right to challenge these restrictions as being overly broad, unreasonable or otherwise unenforceable.

### **§8 TRAINING AND ASSISTANCE**

#### **8.1 Initial Training**

Franchisor shall make an initial training program available to the up to three individuals designated by Franchisee, one of whom must be Franchisee's Designated Manager. Approximately six to eight weeks prior to the opening of the Franchised Business, the Designated Manager must attend and successfully complete, to Franchisor's satisfaction, an initial training program pertaining to the operation and administration of the Franchised Business including, but not limited to, operational procedures, customer service techniques, sales and marketing methods; financial controls; maintenance of quality standards; record keeping; and reporting procedures and other operational issues. Franchisor shall conduct the initial training program at its headquarters, Franchisor's training store, or at another designated location. Franchisor shall not charge tuition or similar fees for initial training, however, all expenses incurred by Franchisee in attending such program including, but not limited to, travel costs, room and board expenses and employees' salaries, shall be the sole responsibility of Franchisee. Franchisee shall be responsible for training its management and other employees.

#### **8.2 Opening Assistance**

In conjunction with the beginning of operation, but not to exceed 60 days from the opening of the Franchised Business, Franchisor shall make available to Franchisee, at Franchisor's expense, a team of Franchisor's representatives, experienced in the System, for the purpose of familiarizing Franchisee's staff with the Franchised Business System techniques and for the purpose of providing general assistance and guidance in connection with the opening of the Franchised Business. If Franchisee requests additional assistance with respect to the opening or continued operation of the Franchised Business, and should Franchisor deem it necessary and appropriate to comply with such



request, Franchisee shall pay Franchisor's then-current standard rates, plus expenses, for such additional assistance.

### **8.3 Failure to Complete Initial Training Program**

If Franchisor determines that the Designated Manager is unable to satisfactorily complete the training program described above, Franchisor has the right to terminate this Agreement. If Franchisee is a business entity and the Designated Manager fails to complete the initial training program to Franchisor's reasonable satisfaction, Franchisee may be permitted to select a substitute manager and such substitute manager must complete the initial training to Franchisor's satisfaction. If this Agreement is terminated pursuant to this Section, Franchisor shall terminate any future obligations of Franchisee to Franchisor upon Franchisor's receipt of a general release, the same as or similar to the General Release attached as Exhibit 1, releasing any and all claims against Franchisor, any Affiliate and their officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities). Franchisor shall retain the Franchise Fee. The amount of the Franchise Fee retained shall be specifically understood and agreed by the parties to be in consideration of the services provided, time expended, work performed, and other efforts of Franchisor up to the date of termination and shall not be construed as nor considered to be a penalty.

### **8.4 New Designated Manager**

After beginning operations, should Franchisee name a new Designated Manager, Franchisee must notify Franchisor of the identity of the new Designated Manager. Franchisee will be responsible for training the new Designated Manager. The Franchisor may, in its discretion, conduct an assessment of Franchisee's new Designated Manager at the completion of his or her training. Franchisee may request that Franchisor conduct or allow the Designated Manager to attend and participate in another franchisee's initial training program, but Franchisor reserves the right to approve or disapprove such request in its sole discretion. Any such training by Franchisor shall be at Franchisee's sole cost and expense, and Franchisor shall charge Franchisee a training fee to be determined by Franchisor in its sole discretion.

### **8.5 Ongoing Training**

From time to time, Franchisor may provide and if it does, has the right to require that the Designated Manager attend ongoing training programs or seminars during the term of this Agreement. Franchisor shall not charge a fee for any mandatory ongoing training. Franchisee shall be responsible for all travel costs, room and board and employees' salaries incurred in connection with the Designated Manager's attendance at such training.

## **§9 OPERATIONS MANUAL**

### **9.1 Loan by Franchisor**

While this Agreement is in effect, Franchisor shall lend to Franchisee one (1) copy of the Operations Manual or grant Franchisee access to an electronic copy of the Operations Manual. Manual will vary depending on whether the business is a DRNK coffee + tea® or QWENCH juice bar or Co-Branded business. Franchisee shall conduct the Franchised Business in strict accordance with the provisions set forth in the Operations Manual. The Operations Manual may consist of one (1) or more separate manuals and other materials as designated by Franchisor and may be in written or electronic form. The Operations Manual shall, at all times, remain the sole property of Franchisor and shall promptly be returned to Franchisor upon expiration or termination of this Agreement.

### **9.2 Revisions**

Franchisor has the right to add to or otherwise modify the Operations Manual from time to time to reflect changes in the specifications, standards, operating procedures and rules prescribed by Franchisor; provided, however, that no such addition or modification shall materially alter Franchisee's

fundamental status and rights under this Agreement. Franchisor may make such additions or modifications without prior notice to Franchisee. Franchisee shall immediately, upon notice, adopt any such changes and shall ensure that its copy of the Operations Manual is up-to-date at all times. If a dispute as to the contents of the Operations Manual arises, the terms of the master copy of the Operations Manual maintained by Franchisor at Franchisor's headquarters shall be controlling.

### **9.3 Confidentiality**

The Operations Manual contains Trade Secrets and other Confidential Information of Franchisor and its contents shall be kept confidential by Franchisee both during the term of the Franchise and subsequent to the expiration and non-renewal or termination of this Agreement. Franchisee shall at all times ensure that its copy of the Operations Manual is available at the Approved Location in a current and up-to-date manner. If the Operations Manual is in paper form or stored on computer-readable media, Franchisee shall maintain the Operations Manual in a secure manner at the Approved Location; if the Operations Manual is in electronic form, Franchisee shall maintain the Operations Manual in a password-protected file. Franchisee shall only grant authorized personnel, as defined in the Operations Manual, access to the Operations Manual or any key, combination or passwords needed for access to the Operations Manual. Franchisee shall not disclose, duplicate or otherwise use any portion of the Operations Manual in an unauthorized manner.

## **§10 FRANCHISE SYSTEM**

### **10.1 Uniformity**

Franchisee shall strictly comply, and shall cause the Franchised Business and its employees to strictly comply, with all requirements, specifications, standards, operating procedures and rules set forth in this Agreement, the Operations Manual or other communications supplied to Franchisee by Franchisor.

### **10.2 Modification of the System**

Franchisor has the right to change or modify the System from time to time including, without limitation, the adoption and use of new or modified Marks or copyrighted materials, and computer hardware, software, equipment, inventory, supplies or sales and marketing techniques. Franchisee shall accept and use any such changes in, or additions to, the System as if they were a part of this Agreement as of the Effective Date. Franchisee shall make such expenditures as such changes, additions or modifications in the System may reasonably require; provided, however, Franchisee shall not be required to implement or conform to any such changes, additions or modifications if the cost to do so would exceed (a) ONE DOLLAR (\$1.00) during the first (1<sup>st</sup>) year of the term of this Agreement; (b) TWENTY FIVE THOUSAND DOLLARS (\$25,000.00) in the aggregate during the initial term of this Agreement (which amounts may be increased consistent with increases to the Consumer Price Index, U.S. City Average, all items, 1982-84=100, as published by the United States Department of Labor, Bureau of Labor Statistics "CPI-U"); or (c) ONE DOLLAR (\$1.00) during the final year of the term of this Agreement if Franchisee provides written notice of its intention not to renew the Franchise. Any required expenditure for changes or upgrades to the System shall be in addition to expenditures for repairs and maintenance as required in Section 13.2. Notwithstanding the foregoing, Franchisee shall be required to make any and all improvements or modifications whenever such are required by law, regulation, agency decision or court order.

### **10.3 Variance**

Franchisor has the right to vary standards or specifications for any franchisee based upon that particular franchisee's qualifications, the peculiarities of the particular site or circumstances, the demographics of the trade area, business potential, existing business practices or any other condition which Franchisor deems to be of importance to the successful operation of any particular Franchised

Business. Franchisor shall not be required to disclose or grant to Franchisee a like or similar variance granted to another franchisee.

## **§11 ADVERTISING AND PROMOTIONAL ACTIVITIES**

### **11.1 Grand Opening Advertising**

Prior to, and/or during a period of approximately three (3) months following the initial opening of the Franchised Business, Franchisee shall spend an amount specified by Franchisor on local advertisement and promotion of the initial opening ("Grand Opening Advertising"). Franchisor shall determine and specify an appropriate minimum amount which Franchisee shall be required to expend on Grand Opening Advertising based upon Franchisor's general assessment of the area surrounding the Franchised Business and taking into account other potentially relevant factors, such as prevailing costs of advertising in the area, the time of year of opening and other similar factors. Further, Franchisor shall specify the time at which Franchisee shall conduct Grand Opening Advertising. Prior to their use, all materials to be used in Grand Opening Advertising must be approved by Franchisor through the process set forth in Section 11.2.2. Grand Opening Advertising expenditures shall be in addition to any Local Advertising expenditures and Marketing Fund Contributions.

### **11.2 Local Advertising**

11.2.1 Franchisee shall continuously promote the Franchised Business. Every month, Franchisee shall spend one percent (1%) of its monthly Gross Sales on advertising, promotions and public relations within the immediate locality surrounding the Franchised Business ("Local Advertising"). Such expenditures shall be made directly by Franchisee, subject to the prior approval and direction of Franchisor. Franchisor shall provide general guidelines to Franchisee for conducting Local Advertising. Within thirty (30) days after the end of each month, Franchisee shall furnish to Franchisor an accurate accounting of the expenditures on Local Advertising for the preceding month.

11.2.2 Franchisee shall submit to Franchisor, for its prior approval, all advertising and promotional materials to be used by Franchisee including, but not limited to, television ads, radio ads, ad copy, coupons, flyers, scripts and direct mail. Franchisor shall use reasonable efforts to provide notice of approval or disapproval within twenty (20) days from the date all requested material is received by Franchisor. If Franchisor does not approve submitted materials by the end of such twenty (20) day period, such materials shall be deemed to have received the required approval. Franchisee shall not use any marketing or promotional material prior to approval by Franchisor. The submission of advertising materials to Franchisor for approval shall not affect Franchisee's right to determine the prices at which Franchisee sells products or provides services.

### **11.3 Marketing Fund**

Franchisor has established and administers a System-wide marketing, advertising and promotion fund to assist in Franchisor's regional and national advertising ("Marketing Fund"). Franchisee shall be required to contribute three (3%) of Gross Sales Monthly to the Marketing Fund, or such amount as may be specified by Franchisor and which Franchisor may adjust from time to time ("Marketing Fund Contribution"). ("Gross Sales" excludes sales tax and authorized refunds, credits and allowances). Marketing Fund Contributions shall be made at the time and in the manner provided for Royalty Fees in Section 3.2. Franchisor shall notify Franchisee at least thirty (30) days before changing Marketing Fund Contribution requirements. Marketing Fund shall be maintained and administered by Franchisor or its designee as follows:

11.3.1 Franchisor shall oversee all marketing programs, with sole control over creative concepts, materials and media used in such programs, and the placement and allocation thereof. Franchisor does not warrant that any particular franchisee will benefit directly or pro rata from

expenditures by the Marketing Fund. The program(s) may be local, regional or System-wide. Franchisor does not warrant the success or effectiveness of any particular marketing program.

11.3.2 Franchisee's Marketing Fund Contributions may be used to meet the costs of, or to reimburse Franchisor for its costs of, producing, maintaining, administering and directing consumer advertising (including, without limitation, the cost of preparing and conducting television, radio, Internet, magazine, newspaper, and direct mail advertising campaigns and other public relations activities; developing and/or hosting an Internet web page or site and similar activities; employing advertising agencies to assist therein; and providing promotional brochures and other marketing materials to franchisees). All Marketing Fund Contributions shall be maintained in a separate account from the monies of Franchisor and shall not be used to defray any of Franchisor's general operating expenses, except for such reasonable costs and expenses, if any, that Franchisor may incur in activities reasonably related to the administration of the Marketing Fund.

11.3.3 Franchisor shall endeavor to spend all Marketing Fund Contributions on marketing programs and promotions during Franchisor's fiscal year within which such contributions are made. If excess amounts remain in any Marketing Fund at the end of such fiscal year, all expenditures in the following fiscal year(s) shall be made first out of such excess amounts, including any interest or other earnings of the Marketing Fund, and next out of prior year contributions and then out of current contributions.

11.3.4 Although Franchisor intends the Marketing Fund to be of perpetual duration, Franchisor has the right to terminate the Marketing Fund at any time. The Marketing Fund shall not be terminated, however, until all Marketing Fund Contributions have been expended for advertising and promotional purposes or returned to Franchisee and other franchisees on a *pro rata* basis based on total Marketing Fund Contributions made in the aggregate by each franchisee.

11.3.5 An accounting of the operation of the Marketing Fund shall be prepared annually and shall be available to Franchisee upon request. Franchisor retains the right, but is not obligated to, have the Marketing Fund reviewed or audited and reported on, at the expense of the Marketing Fund, by an independent certified public accountant selected by Franchisor.

11.3.6 Franchisee acknowledges that the Marketing Fund is not a trust and Franchisor assumes no fiduciary duty in administering the Marketing Fund.

#### **11.4 Cooperative Advertising**

Franchisor has the right, but not the obligation, to create a cooperative advertising program for the benefit of Franchised Businesses located within a particular region. Franchisor has the right to collect and designate all or a portion of the Local Advertising to payments or contributions to Franchisor for the funding of a cooperative advertising program. Franchisor has the right to determine the composition of all geographic territories and market areas for the implementation of each cooperative advertising program and to require that Franchisee participate in such cooperative advertising programs when established within Franchisee's region. If a cooperative advertising program is implemented in a particular region, Franchisor has the right to administer the cooperative advertising Program or to establish an advertising council of franchisees to self-administer the cooperative advertising program. Franchisee shall participate in the council according to the rules and procedures established by the council and Franchisee shall abide by the council's decisions. Should Franchisor establish a cooperative advertising program or programs with or without an advertising council, Franchisor has the right, but not the obligation, to change, dissolve or merge such program(s) and/or council(s) at any time.

## **11.5 Internet, Website and Social Media Marketing**

Franchisee may not establish a presence on, or market using, the Internet, any website or Social Media (such as Facebook, LinkedIn, Twitter, Instagram, Snapchat, YouTube, blogs, and other online social networks, wikis, forums, content sharing communities, etc.) in connection with the Franchised Business without Franchisor's prior written consent. Franchisor has established and maintains an Internet website at the uniform resource locator [www.drnkcoffee.com](http://www.drnkcoffee.com) that provides information about the System and the products and services that Franchisor and its franchisees provide. Franchisor may (but is not required to) include at the DRNK coffee + tea® or QWENCH juice bar website an intranet section or an interior page containing information about the Franchised Business. If Franchisor includes such information on the DRNK coffee + tea® or QWENCH juice bar website, Franchisor has the right to require Franchisee to prepare all or a portion of the section or page, at Franchisee's expense, using the trademarks DRNK coffee + tea® or QWENCH juice bar that Franchisor provides and to pay reasonable, per page web hosting fees to Franchisor (or a third-party web hosting firm) on a monthly basis. All such information shall be subject to Franchisor's approval prior to posting. Franchisor retains the sole right to advertise and sell the products and services offered by franchised businesses and to or use the Marks on the Internet, including the use of websites, domain names, uniform resource locators, keywords, linking, search engines (and search engine optimization techniques), Social Media pages, banner ads, meta-tags, marketing, auction sites, e-commerce and co-branding arrangements. Franchisee may be requested to provide content for Franchisor's Internet marketing and shall be required to follow Franchisor's intranet and Internet usage rules, policies and requirements. Franchisor retains the sole right to approve any linking to, or other use of, the DRNK coffee + tea® or QWENCH juice bar website. If Franchisee is permitted to establish a presence on an Internet website or Social Media site, Franchisor must be granted administrative access to the account.

## **§12 ACCOUNTING, RECORDS AND REPORTING OBLIGATIONS**

### **12.1 Records**

During the term of this Agreement, Franchisee shall maintain full, complete and accurate books, records and accounts in accordance with the standard accounting system prescribed by Franchisor in the Operations Manual or otherwise in writing. Franchisee shall retain during the term of this Agreement, and for three (3) years thereafter, all books and records related to the Franchised Business including, without limitation, purchase orders, invoices, payroll records, sales tax records, state and federal tax returns, bank statements, cancelled checks, deposit receipts, cash receipts and disbursement journals, general ledgers, and any other financial records designated by Franchisor or required by law.

### **12.2 Gross Sales Reports**

Franchisee shall maintain an accurate record of daily Gross Sales and shall deliver to Franchisor via facsimile transmission, email, or the intranet, a signed and verified statement of monthly Gross Sales ("Gross Sales Report") for the fifteenth (15<sup>th</sup>) day of each month for the previous month in a form that Franchisor approves or provides in the Operations Manual. The Gross Sales Report for the preceding month must be provided to Franchisor by the close of business on the fifteenth (15<sup>th</sup>) day of each month as provided in Section 3.2.

### **12.3 Financial Statements**

Franchisee shall supply to Franchisor on or before the tenth (10<sup>th</sup>) day of each month following the close of a quarter, in a form approved by Franchisor, a balance sheet as of the end of the last day of the preceding month and an income statement for the preceding quarter and the fiscal year-to-date. Franchisee shall, at its expense, submit to Franchisor within ninety (90) days after the end of each calendar year, an income statement for the calendar year just ended and a balance sheet as of the last

day of the calendar year. Such financial statements shall be prepared in accordance with GAAP, applied on a consistent basis. As required by Franchisor, such financial statements shall be reviewed or audited by a certified public accountant. Franchisee shall submit to Franchisor such other periodic reports in the manner and at the time specified in the Operations Manual or otherwise in writing.

#### **12.4 Other Reports**

Franchisee shall submit to Franchisor copies of all state sales tax returns that are required to be filed with the appropriate governmental agency and such other records as Franchisor may reasonably request from time to time or as specified in the Operations Manual. Franchisor shall have the right to release financial and operational information relating to the Franchised Business to Franchisor's lenders or prospective lenders. Franchisee shall certify as true and correct all reports to be submitted pursuant to this Agreement.

#### **12.5 Computer Equipment**

Franchisor reserves the right to require Franchisee to purchase, install and use computer and point-of-sale systems consisting of hardware and software in accordance with Franchisor's specifications. Franchisor shall have full access to all of Franchisee's computer and point-of-sale data and systems and all related information by means of direct access, either in person or by telephone, modem or Internet to permit Franchisor to verify Franchisee's compliance with its obligations under this Agreement.

#### **12.6 Right to Inspect**

Franchisor or its designee has the right, during normal business hours, to make announced or unannounced inspections of the Franchised Business to ensure compliance with all of the requirements of this Agreement. In connection with such inspections Franchisor or its designee may examine, copy and audit the books, records and tax returns of Franchisee. If the audit or any other inspection should reveal that any payments to Franchisor have been underpaid, then Franchisee shall immediately pay to Franchisor the amount of the underpayment plus interest from the date such amount was due until paid at the rate of eighteen percent (18%) per annum (or the highest rate allowed by the law of the state where Franchisee is located, whichever is lower). If the audit or any other inspection discloses an underpayment of three percent (3%) or more of the amount due for any period covered by the audit, Franchisee shall, in addition, reimburse Franchisor for any and all costs and expenses connected with the inspection (including, without limitation, travel expenses and reasonable accounting and attorneys' fees). The foregoing remedies shall be in addition to any other remedies Franchisor may have.

#### **12.7 Release of Records**

At Franchisor's request, Franchisee shall authorize and direct any third parties, including accounting and legal professionals, to release to Franchisor all accounting and financial records arising from or relating to the operation of the Franchised Business including, but not limited to, records evidencing Gross Sales, profits, losses, income, tax liabilities, tax payments, revenues, expenses, and any correspondence, notes, memoranda, audits, business records, or internal accounts within said third parties' possession, custody or control, and to continue to release such records to Franchisor on a monthly basis for the length of the unexpired term of this Agreement or until such time as Franchisor withdraws its request. Franchisee shall execute all documents necessary to facilitate the release of records referenced herein to Franchisor.

### **§13 STANDARDS OF OPERATION**

#### **13.1 Authorized Products, Services and Suppliers**

13.1.1 Franchisee acknowledges that the reputation and goodwill of the System is based in large part on offering high quality products and services to its customers. Accordingly, Franchisee shall provide or offer for sale or use at the Franchised Business only those items and services that

Franchisor from time to time approves (and which are not thereafter disapproved) and that comply with Franchisor's specifications and quality standards.

13.1.2 Franchisor shall provide Franchisee, in the Operations Manual or other written or electronic form, with a list of specifications and a list of Approved Suppliers for some or all of the supplies, signs, furniture, fixtures, inventory, equipment and other approved or specified items and services. Franchisor may from time to time issue revisions to such list. Franchisee shall not offer for sale, sell or provide through the Franchised Business or from the Approved Location any products or services that Franchisor has not approved. Franchisor may revoke its approval of any item, service or supplier at any time by notifying Franchisee and/or the supplier. Franchisee shall, at its own expense, promptly cease using, selling or providing any items or services disapproved by Franchisor and shall promptly cease purchasing from suppliers disapproved by Franchisor.

13.1.3 If Franchisee desires to utilize any products or services that Franchisor has not approved (for products and services that require supplier approval), Franchisee shall first send Franchisor sufficient information, specifications and samples for Franchisor to determine whether the service or product complies with its standards and specifications or whether the supplier meets its Approved Supplier criteria. Franchisee shall bear all expenses incurred by Franchisor in connection with determining whether it shall approve an item, service or supplier. Franchisor will decide within 60 days after receiving the required information whether Franchisee may purchase or lease such items or services or from such supplier. Approval of a supplier may be conditioned on the supplier's ability to provide sufficient quantity of product; quality of products or services at competitive prices; production and delivery capability; and dependability and general reputation. Nothing in this Section shall be construed to require Franchisor to approve any particular supplier, or to require Franchisor to make available to prospective suppliers, standards and specifications that Franchisor deems confidential.

13.1.4 If Franchisor or an Affiliate is an Approved Supplier, Franchisee shall execute a standard form purchase or supply agreement for the items to be supplied by Franchisor or its Affiliate.

13.1.5 Franchisor has the right to designate certain products and services, not otherwise authorized for general use as part of the System, to be offered locally or regionally based upon such factors as Franchisor determines including, but not limited to, franchisee qualifications, test marketing and regional or local differences. Franchisor has the right to give its consent to one (1) or more franchisees to provide certain products or services not authorized for general use as part of the System. Such consent will be based upon the factors set forth in Section 10.3 and shall not create any rights in Franchisee to provide the same products or services.

13.1.6 Franchisor has the right to retain volume rebates, markups and other benefits from suppliers or in connection with the furnishing of suppliers. Franchisee shall have no entitlement to or interest in any such benefits.

## **13.2 Appearance and Condition of the Franchised Business**

Franchisee shall maintain the Approved Location, vehicle, equipment and signage in "like new" condition, and shall repair or replace equipment, vehicle, fixtures, supplies, inventory and signage as necessary to comply with the health and safety standards and specifications of Franchisor and Franchisee's lessor and any applicable laws or regulations. The expense of such maintenance shall be borne by Franchisee and shall be in addition to any required System modifications, as described in Section 10.2.

### **13.3 Ownership and Management**

The Franchised Business shall, at all times, be under the direct supervision of Franchisee who will appoint a Designated Manager will provide personal “on premises” supervision of the Franchised Business. The Designated Manager is required to devote sufficient efforts to the management of the day-to-day operation of the Franchised Business, which shall entail not less than thirty-five (35) hours per week, excluding vacation, sick leave and similar absences. Franchisee shall keep Franchisor informed, in writing, at all times of the identity of its Designated Manager. Franchisee and the Designated Manager must not engage in any business or other activities that will conflict with their obligations under this Agreement.

### **13.4 Days of Operation**

Franchisee shall keep the Franchised Business open for business during normal business hours on the days specified in the Operations Manual.

### **13.5 Contributions and Donations**

In order to protect the Marks, Franchisee must obtain Franchisor’s prior written consent before making any contributions or donations of items, services or funds to any individual or entity, or provide any type of other benefit to any charitable, religious, political, social, civic or other type of organization (or to any individual on behalf of any organization). Franchisor may withhold any such consent in its sole and absolute discretion.

### **13.6 Licenses and Permits**

Franchisee shall secure and maintain in force all required licenses, permits and certificates necessary for the operation of the Franchised Business and shall operate the Franchised Business in full compliance with all applicable laws, ordinances and regulations. Franchisor makes no representation to Franchisee with regard to any legal requirements that Franchisee must satisfy or comply with in connection with the operation of the Franchised Business. Franchisee shall be solely responsible for investigating and complying with all such laws, ordinances and regulations with regard to the operation of the Franchised Business.

### **13.7 Notification of Proceedings**

Franchisee shall notify Franchisor in writing of the receipt of a notice of demand or threatened claim of liability of, or damages against or involving, Franchisee or the Franchised Business not more than five (5) days after Franchisee’s receipt of such notice. Franchisee shall notify Franchisor in writing of the commencement of any action, suit or proceeding involving Franchisee or the Franchised Business, and of the issuance of any order, writ, injunction, judgment, award or decree which may affect the operation or financial condition of the Franchised Business not more than five (5) days after notice of such commencement or issuance. Franchisee shall deliver to Franchisor not more than five (5) days after Franchisee’s receipt thereof, a copy of any inspection report, warning, certificate or rating by any governmental agency relating to any health or safety law, rule or regulation that reflects Franchisee’s failure to meet and maintain the highest applicable rating or Franchisee’s non-compliance or less than full compliance with any applicable law, rule or regulation.

### **13.8 Compliance with Good Business Practices**

Franchisee acknowledges that the quality of customer service, and every detail of appearance and demeanor of Franchisee and its employees, is material to this Agreement and the relationship created and licenses granted hereby. Therefore, Franchisee shall endeavor to maintain high standards of quality and service in the operation of the Franchised Business. Franchisee shall at all times give prompt, courteous and efficient service to customers of the Franchised Business. The Franchised Business shall in all dealings with its customers, vendors and the general public, adhere to the highest standards of honesty, fair dealing and ethical conduct. If Franchisor deems that Franchisee did not



fairly handle a customer complaint, Franchisor has the right to intervene and satisfy the customer. Franchisor will take disciplinary action by giving written notice for failing to comply with good business practices. Termination will occur after 3 notices have been issued within twelve (12) months. Franchisee shall reimburse Franchisor for all costs incurred by Franchisor in servicing a customer of the Franchised Business pursuant to this Section.

### **13.9 Uniforms**

Franchisee shall abide by any uniform or dress code requirements stated in the Operations Manual or otherwise. Uniforms, if required, must be purchased from an Approved Supplier.

### **13.10 E-Mail**

Franchisee shall, at all times and at Franchisee's expense, maintain an e-mail address and account for communicating with Franchisor. Franchisee may change its e-mail address by giving written notice of such change of address to Franchisor.

### **13.11 Best Efforts**

Franchisee shall use its best efforts to promote and increase the sales and recognition of services offered through the Franchised Business. Franchisee shall require all of Franchisee's employees, managers, officers, agents and representatives to make a good faith effort to enhance and improve the System and the sales of all products and services provided as part of the System.

## **§14 FRANCHISOR'S ADDITIONAL OPERATIONS ASSISTANCE**

### **14.1 General Advice and Guidance**

Franchisor shall be available to render advice, discuss problems and offer general guidance to Franchisee by telephone, e-mail, facsimile, newsletters and other methods with respect to planning, opening and operating the Franchised Business. Franchisor shall not charge for this service; however, Franchisor retains the right to refuse or charge a fee for this service should Franchisee be deemed by Franchisor to be utilizing this service too frequently or in an unintended manner. Franchisor's advice or guidance to Franchisee relative to prices for products and services that, in Franchisor's judgment, constitutes good business practice is based upon the experience of Franchisor and its franchisees in operating DRNK/QWENCH businesses and an analysis of costs and prices charged for competitive products and services. Franchisee shall have the sole right to determine the prices to be charged by the Franchised Business; provided, however, that Franchisor shall have the sole right to determine the prices to be charged for products sold through the DRNK coffee + tea or QWENCH juice bar Internet site, including products sold to persons identified as customers of the Franchised Business.

### **14.2 Periodic Visits**

Franchisor or Franchisor's representative may make periodic visits, which may be announced or unannounced, to the Franchised Business for the purposes of consultation, assistance and guidance with respect to various aspects of the operation and management of the Franchised Business. Franchisor and Franchisor's representatives who visit the Franchised Business may prepare, for the benefit of both Franchisor and Franchisee, written reports detailing any problems or concerns discovered during any such visit and outlining any required or suggested changes or improvements in the operations of the Franchised Business. A copy of any such written report may be provided to Franchisee. Franchisee shall implement any required changes or improvements as required by Franchisor with time being of the essence.

## **§15 INSURANCE**

### **15.1 Types and Amounts of Coverage**

At its sole expense, Franchisee shall procure within sixty (60) days of the Effective Date and maintain in full force and effect during the term of this Agreement, the types of insurance listed below. All policies (except any workers' compensation insurance) shall expressly name Franchisor as an additional insured or loss payee and all shall contain a waiver of all subrogation rights against Franchisor, its Affiliates, and its successors and assigns. Such insurance policy or policies must be "occurrence " policies and not "claims made" policies; must not provide for a deductible greater than One Thousand Dollars (\$1,000) in the aggregate and must provide that no act or omission of ours or of any officer, director, or employee of ours or any affiliate of ours shall invalidate or diminish any coverage thereunder. In addition to any other insurance that may be required by applicable law, or by lender or lessor, Franchisee shall procure:

15.1.1 "all risk" property insurance coverage on all assets including inventory, furniture, fixtures, equipment, supplies and other property used in the operation of the Franchised Business. Franchisee's property insurance policy shall include coverage for fire, vandalism and malicious mischief and must have coverage limits of at least full replacement cost;

15.1.2 workers' compensation insurance that complies with the statutory requirements of the state in which the Franchised Business is located and employer liability coverage with a minimum limit of ONE HUNDRED THOUSAND DOLLARS (\$100,000.00) or, if higher, the statutory minimum limit as required by state law;

15.1.3 comprehensive general liability insurance against claims for bodily and personal injury, death and property damage caused by, or occurring in conjunction with, the operation of the Franchised Business, or Franchisee's conduct of business pursuant to this Agreement, with a minimum liability coverage of ONE MILLION DOLLARS (\$1,000,000.00) per occurrence, or, if higher, the statutory minimum limit required by state law; and TWO MILLION DOLLARS (\$2,000,000.00) aggregate;

15.1.4 such insurance as necessary to provide coverage under the indemnity provisions set forth in Section 21.3

15.1.5 Franchisor's minimum insurance requirements are summarized in the table below:

<b>Type of Coverage</b>	<b>Limits/Specifications</b>
General Liability	\$1,000,000 bodily injury/property damage per occurrence/ \$2,000,000 aggregate
Building Improvements and Betterments	100% of full replacement cost - no coinsurance (minimum of \$100,000)
Business Personal Property	100% of full replacement cost - no coinsurance - special form or equivalent (minimum of \$100,000)
Spoilage	\$5,000
Business Income	actual loss sustained or at least 50% of annual sales
Flood, Earthquake and Volcanic Eruption	subject to territory limitations - required if in a designated flood zone
Workers' Compensation	statutory requirements

Stop Gap or Employer Liability	bodily injury by accident: \$1,000,000 each accident bodily injury by disease: \$1,000,000 policy limit bodily injury by disease: \$1,000,000 each employee
Hired and Non-Owned Automobile Liability	\$1,000,000 combined single limit per accident

In addition to the above, cyber liability/data breach insurance coverage is not required by the Franchisor at this time but is recommended.

The table above sets forth Franchisor's minimum coverage requirements. Franchisees are advised that the landlord of the Approve Location may require additional coverage, higher limits, or other requirements not required by Franchisor, and Franchisee is responsible for maintaining such additional items as well as Franchisor's requirements. Franchisee shall keep the required insurance coverage in force at all times during the operation of the Franchised Business and must comply with any changes in Franchisor's insurance requirements. Additionally, if the Approved Location is located in a flood zone or an area subject to earthquakes, hurricanes, tornadoes, other similar hazards, Franchisee is advised to consider obtaining additional specific insurance to cover these risks; however, such insurance may significantly increase insurance premiums.

#### **15.2 Future Increases**

Franchisor has the right to reasonably increase the minimum liability protection requirement annually and require different or additional insurance coverage(s) to reflect inflation, changes in standards of liability, future damage awards or other relevant changes in circumstances.

#### **15.3 Carrier Standards**

Such policies shall be written by an insurance company licensed in the state in which Franchisee operates and having at least an "A" Rating Classification as indicated in the latest issue of A.M. Best's Key Rating Guide. Although A.M. Best groups "A" and "A-" in the same classification, Franchisor demands an "A" rating.

#### **15.4 Evidence of Coverage.**

Franchisee's obligation to obtain and maintain the foregoing policies shall not be limited in any way by reason of any insurance which may be maintained by Franchisor, nor shall Franchisee's performance of this obligation relieve it of liability under the indemnity provisions set forth in Section 21.3. Franchisee shall provide Franchisor, prior to opening the Franchised Business store, and then annually thereafter, certificates of insurance showing compliance with the foregoing requirements. Such certificates shall state that said policy or policies shall not be canceled or altered without at least thirty (30) days' prior written notice to Franchisor and shall reflect proof of payment of premiums.

#### **15.5 Failure to Maintain Coverage**

Should Franchisee not procure and maintain insurance coverage as required by this Agreement, in addition to Franchisor's other rights and remedies under this Agreement, Franchisor has the right (but not the obligation) to immediately procure such insurance coverage and to charge the premiums to Franchisee, which charges, together with a reasonable fee for expenses incurred by Franchisor in connection with such procurement, shall be payable by Franchisee immediately upon notice.

## **§16 DEFAULT AND TERMINATION**

### **16.1 Termination by Franchisee**

If Franchisee is in full compliance with all of the terms of this Agreement and Franchisor materially breaches this Agreement and fails to commence reasonable efforts to cure such breach within thirty (30) days after receiving written notice identifying the claimed breach, Franchisee may elect to terminate this Agreement unless the breach cannot reasonably be cured within such thirty (30) days. If the breach cannot reasonably be cured in such thirty (30) days, Franchisee may elect to terminate this Agreement only if Franchisor does not promptly undertake and continue efforts to cure such material breach within a reasonable period of time and furnish Franchisee reasonable proof of such efforts.

### **16.2 Termination by Franchisor**

16.2.1 Franchisor has the right to terminate this Agreement, without any opportunity to cure by Franchisee, if Franchisee:

16.2.1.1 fails to timely select an approved site for or establish, equip and commence operations of the Franchised Business pursuant to Section 5;

16.2.1.2 fails to have its Designated Manager satisfactorily complete any training program pursuant to Section 8;

16.2.1.3 made any material misrepresentation or omission in its application for the Franchise or otherwise to Franchisor in the course of entering into this Agreement;

16.2.1.4 is convicted of or pleads no contest to a felony or other crime or offense that is likely to adversely affect the reputation of Franchisor, Franchisee or the Franchised Business;

16.2.1.5 after notice to cure, fails to refrain from activities, behavior or conduct likely to adversely affect the reputation of Franchisor, Franchisee or the Franchised Business;

16.2.1.6 discloses, duplicates or otherwise uses in an unauthorized manner any portion of the Operations Manual, Trade Secrets or any other Confidential Information;

16.2.1.7 if required by Franchisor, fails to have any holder of a legal or beneficial interest in Franchisee (and any member of their immediate families or households), and any officer, director, executive, manager or member of the professional staff and all employees of Franchisee, execute a non-disclosure and non-competition agreement, in a form the same as or similar to the Non-disclosure and Non-competition Agreement attached as Exhibit 2, upon execution of this Agreement or prior to each such person's affiliation with Franchisee or fails to provide Franchisor with copies of all non-disclosure and non-competition agreements signed pursuant to Section 7.4 if requested by Franchisor;

16.2.1.8 defaults on the lease for the Approved Location, and the landlord on such lease terminates such lease and Franchisee's tenancy thereunder (provided, that if Franchisor elects to assume or cause the assumption of the lease by an Affiliate or another franchisee after such default in accordance with the terms of such lease, that such assumption of the lease will be deemed to be a "termination" for purposes of this Section 16.2.1.8);

16.2.1.9 abandons, fails or refuses to actively operate the Franchised Business for five (5) or more consecutive days (unless the Franchised Business has not been operational for a purpose approved by Franchisor), or, if first approved by Franchisor, fails to promptly relocate the Franchised Business following the expiration or termination of the lease for the Approved Location, the destruction or condemnation of the Approved Location or any other event rendering the Approved Location unusable;

16.2.1.10 surrenders or transfers control of the operation of the Franchised Business without Franchisor's approval, makes or attempts to make an unauthorized direct or indirect assignment of the Franchise or an ownership interest in Franchisee, or fails or refuses to assign the Franchise or the interest in Franchisee of a deceased or incapacitated owner thereof as herein required;

16.2.1.11 fails to maintain the Franchised Business under the primary supervision of a Designated Manager during the one hundred eighty (180) days following the death or Incapacity of Franchisee or any holder of a legal or beneficial interest in Franchisee pursuant to Section 18.6;

16.2.1.12 submits to Franchisor on two (2) or more separate occasions at any time during the term of the Franchise any reports or other data, information or supporting records that understate any Royalty Fee or any other fees owed to Franchisor by more than three percent (3%) for any accounting period and Franchisee is unable to demonstrate that such understatements resulted from inadvertent error;

16.2.1.13 is adjudicated as bankrupt, becomes insolvent, commits any affirmative act of insolvency, or files any action or petition of insolvency; if a receiver of its property or any part thereof is appointed by a court; if it makes a general assignment for the benefit of its creditors; if a final judgment remains unsatisfied of record for thirty (30) days or longer (unless *supersedeas* bond is filed); if execution is levied against Franchisee's business or property; if a suit to foreclose any lien or mortgage against its Approved Location or equipment is instituted against Franchisee and not dismissed within thirty (30) days or is not in the process of being dismissed;

16.2.1.14 misuses or makes an unauthorized use of any of the Marks or commits any other act which can reasonably be expected to impair the goodwill associated with any of the Marks;

16.2.1.15 fails on two (2) or more separate occasions within any period of twelve (12) consecutive months to submit reports or other information or supporting records when due, to pay any Royalty Fee, Marketing Fund Contribution, amounts due for purchases from Franchisor and any Affiliate, or other payment when due to Franchisor or any Affiliate, whether or not such failures to comply are corrected after notice thereof is delivered to Franchisee;

16.2.1.16 violates on two (2) or more occasions any health or safety law, ordinance or regulation, or operates the Franchised Business in a manner that presents a health or safety hazard to its customers, employees or the public;

16.2.1.17 engages in any activity exclusively reserved to Franchisor;

16.2.1.18 fails to comply with any applicable law or regulation within ten (10) days after being given notice of non-compliance;

16.2.1.19 breaches this Agreement and/or fails to comply with mandatory specifications, customer service standards or operating procedures prescribed in the Operations Manual on two (2) or more separate occasions within any period of twelve (12) consecutive months, whether or not previous breaches or failures are cured; or

16.2.1.20 defaults under any other agreement between Franchisor (or any Affiliate) and Franchisee, such that Franchisor or its Affiliate, as the case may be, has the right to terminate such agreement or such agreement automatically terminates.

16.2.2 Except as otherwise provided in Section 16.2.1, Franchisor has the right to terminate this Agreement for the following breaches and defaults by giving notice of such termination stating the nature of the default; provided, however, that Franchisee may avoid termination by curing such default or failure (or by providing proof acceptable to Franchisor that Franchisee has made all reasonable efforts to cure such default or failure and shall continue to make all reasonable efforts to cure until a

cure is effected if such default or failure cannot reasonably be cured before the effective date of the termination) within the specified period:

16.2.2.1 within five (5) days of receiving notice of Franchisee's failure to pay any amounts due to Franchisor;

16.2.2.2 within ten (10) days of receiving notice of Franchisee's failure to maintain insurance as specified in Section 15 of this Agreement; or

16.2.2.3 within thirty (30) days of receiving notice of any other default by Franchisee or upon Franchisee's failure to comply with any mandatory specification, standard or operating procedure prescribed in the Operations Manual or otherwise prescribed in writing.

### **16.3 Reinstatement and Extension**

If provisions of this Agreement provide for periods of notice less than those required by applicable law, or provide for termination, cancellation or non-renewal other than in accordance with applicable law, Franchisor may reinstate or extend the term of this Agreement for the purpose of complying with applicable law by submitting a written notice to Franchisee without waiving any of Franchisor's rights under this Agreement.

### **16.4 Right of Franchisor to Discontinue Services to Franchisee**

If Franchisee is in breach of any obligation under this Agreement, and Franchisor delivers to Franchisee a notice of termination pursuant to Section 16.2.2, Franchisor has the right to suspend its performance of any of its obligations under this Agreement including, without limitation, the sale or supply of any products or services for which Franchisor is an Approved Supplier to Franchisee, until such time as Franchisee corrects the breach.

### **16.5 Right of Franchisor to Operate Franchised Business**

Following the delivery of a notice of termination pursuant to Section 16.2.2, if necessary in Franchisor's discretion, Franchisor shall have the right, but not the obligation, to assume the operation of the Franchised Business until such time as Franchisee corrects the breach. Franchisor may charge a management fee as stated in the Operations Manual from time to time, currently equal to SIX HUNDRED DOLLARS (\$600.00) per day, and Franchisor shall be entitled to reimbursement of any expenses Franchisor incurs that are not paid out of the operating cash flow of the Franchised Business. Should Franchisor elect to assume the operation of the Franchised Business on a temporary basis, Franchisor shall have no responsibility or liability for the obligations, debts or payments under the lease for the Approved Location (if any) or otherwise.

## **§17 RIGHTS AND DUTIES UPON EXPIRATION OR TERMINATION**

### **17.1 Actions to be Taken**

Except as otherwise provided herein, upon termination or expiration, this Agreement and all rights granted hereunder to Franchisee shall terminate and Franchisee shall:

17.1.1 immediately cease to operate the Franchised Business and shall not thereafter, directly or indirectly, represent to the public or hold itself out as a present or former franchisee of Franchisor;

17.1.2 cease to use the Trade Secrets or other Confidential Information, the System and the Marks including, without limitation, all signs, slogans, symbols, logos, advertising materials, stationery, forms and any other items which display or are associated with the Marks;

17.1.3 upon demand by Franchisor, immediately assign (or, if an assignment is prohibited, sublease for the full remaining term, and on the same terms and conditions as Franchisee's lease) its interest in the lease then in effect for the Approved Location to Franchisor and Franchisee shall furnish Franchisor with evidence satisfactory to Franchisor of compliance with this obligation within thirty (30)

days after termination or expiration of this Agreement, and Franchisor has the right to pay rent and other expenses directly to the party to whom such payment is ultimately due;

17.1.4 take such action as may be necessary to cancel or assign to Franchisor, at Franchisor's option, any assumed name or equivalent registration filed with state, city or county authorities which contains the name "DRNK coffee + tea" "QWENCH juice bar" or any other Mark, and Franchisee shall furnish Franchisor with evidence satisfactory to Franchisor of compliance with this obligation within thirty (30) days after termination or expiration of this Agreement;

17.1.5 pay all sums owing to Franchisor and any Affiliate. In the event of termination for any default of Franchisee, such sums shall include, but not be limited to, all damages, costs and expenses, including reasonable attorneys' fees with respect to litigation, arbitration, appellate or bankruptcy proceedings, unpaid Royalty Fees, loss of future Royalty Fee payments incurred by Franchisee as a result of any early termination of this Agreement, and any other amounts due to Franchisor or any Affiliate;

17.1.6 pay to Franchisor all costs and expenses, including reasonable attorneys' fees, incurred by Franchisor subsequent to the termination or expiration of the Franchise in obtaining injunctive or other relief for the enforcement of any provisions of this Agreement;

17.1.7 immediately return to Franchisor the Operations Manual, Trade Secrets and all other Confidential Information including records, files, instructions, brochures, agreements, disclosure statements and any and all other materials provided by Franchisor to Franchisee relating to the operation of the Franchised Business (all of which are acknowledged to be Franchisor's property);

17.1.8 assign all telephone listings and numbers for the Franchised Business to Franchisor and shall notify the telephone company and all listing agencies of the termination or expiration of Franchisee's right to use any telephone numbers or facsimile numbers associated with the Marks in any regular, classified or other telephone directory listing and shall authorize transfer of same to or at the direction of Franchisor; and

17.1.9 comply with all other applicable provisions of this Agreement.

## **17.2 Post-Termination Covenant Not to Compete**

17.2.1 Franchisee acknowledges that the restrictive covenants contained in this Section and in Section 7 are fair and reasonable and are justifiably required for purposes including, but not limited to, the following:

17.2.1.1 to protect the Trade Secrets and other Confidential Information of Franchisor;

17.2.1.2 to induce Franchisor to grant a Franchise to Franchisee; and

17.2.1.3 to protect Franchisor against its costs in training Franchisee and its officers, directors, executives, professional staff and Designated Managers.

17.2.2 Except as otherwise approved in writing by Franchisor, neither Franchisee, nor any holder of a legal or beneficial interest in Franchisee, nor any officer, director, executive, manager or member of the professional staff of Franchisee, shall, for a period of two (2) years after the expiration or termination of this Agreement, regardless of the cause of termination, either directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity:

17.2.2.1 own an interest in, manage, operate or provide the same goods or services to customers through a Competitive Business located or operating (a) within the Territory, or (b) within the territory of any other Franchised Business in existence at the time of termination or expiration; or

17.2.2.2 solicit or otherwise attempt to induce or influence any customer, employee, franchisee or other business associate of Franchisor to terminate or modify his, her or its business relationship with Franchisor or to compete against Franchisor.

17.2.3 In furtherance of this Section, Franchisor has the right to require certain individuals to execute standard form non-disclosure or non-competition agreements in a form the same as or similar to the Non-disclosure and Non-competition Agreement attached as Exhibit 2.

17.2.4 If for whatever reason, either the above area or time frame covered by the Non-disclosure and Non-competition Agreement is deemed unreasonable by a court of law, then and only in such an event shall such area and/or its time frame be reduced accordingly by the court. The rulings by the court concerning the area or time frame or any other judicial interpretation shall not affect the rest and remainder of such restrictive covenants.

### **17.3 Unfair Competition**

If Franchisee operates any other business, Franchisee shall not use any reproduction, counterfeit, copy or colorable imitation of the Marks, either in connection with such other business or the promotion thereof, that is likely to cause confusion, mistake or deception, or that is likely to dilute Franchisor's rights in the Marks. Franchisee shall not utilize any designation of origin, description or representation that suggests or represents an association or connection with Franchisor. This Section is not intended as an approval of Franchisee's right to operate other businesses and in no way is it intended to contradict Sections 7, 17.1 or 17.2. If Franchisor elects not to receive an assignment or sublease of the Approved Location, Franchisee shall make such modifications or alterations to the Approved Location (including changing telephone and facsimile numbers) immediately upon termination or expiration of this Agreement as may be necessary to prevent any association between Franchisor or the System and any business subsequently operated by Franchisee or others at the Approved Location. Franchisee shall make such specific additional changes to the Approved Location as Franchisor may reasonably request for that purpose including, without limitation, removal of all physical and structural features identifying or distinctive to the System. If Franchisee fails or refuses to comply with the requirements of this Section, Franchisor has the right to enter upon the Approved Location for the purpose of making or causing to be made such changes as may be required, at the expense of Franchisee, which expense Franchisee shall pay upon demand.

### **17.4 Franchisor's Option to Purchase Certain Business Assets**

Franchisor has the right of first refusal under Section 19 of this Agreement (but not the obligation), for a period of thirty (30) days after termination or expiration of this Agreement, to purchase any or all assets of the Franchised Business including leasehold improvements, equipment, supplies and other inventory. The purchase price shall be equal to the assets' fair market value, as determined by an independent appraiser. If Franchisor elects to exercise this option to purchase, it has the right to set off all amounts due from Franchisee under this Agreement, if any, against the purchase price.

### **17.5 Survival of Certain Provisions**

All obligations of Franchisor and Franchisee, which expressly or by their nature survive the expiration or termination of this Agreement, shall continue in full force and effect subsequent to and notwithstanding their expiration or termination and until satisfied or by their nature expire.

## **§18 TRANSFERABILITY OF INTEREST**

### **18.1 Transfer by Franchisor**

This Agreement and all rights and duties hereunder are fully transferable in whole or in part by Franchisor and such rights will inure to the benefit of any person or entity to whom transferred; provided, however, that with respect to any assignment resulting in the subsequent performance by the assignee of the functions of Franchisor, the assignee shall assume the obligations of Franchisor



hereunder and Franchisor shall thereafter have no liability for the performance of any obligations contained in this Agreement.

## **18.2 Transfer by Franchisee to a Third Party**

The rights and duties of Franchisee as set forth in this Agreement, and the Franchise herein granted, are personal to Franchisee (or its owners), and Franchisor has entered into this Agreement in reliance upon Franchisee's personal or collective skill and financial ability. Accordingly, neither Franchisee nor any holder of a legal or beneficial interest in Franchisee may sell, assign, convey, give away, pledge, mortgage, sublicense or otherwise transfer, whether by operation of law or otherwise, any interest in this Agreement, the Franchise granted hereby, the Approved Location used in operating the Franchised Business, its assets or any part or all of the ownership interest in Franchisee without the prior written approval of Franchisor. Any purported transfer without such approval shall be voidable and shall constitute a material breach of this Agreement. If Franchisee is in compliance with this Agreement, Franchisor's consent to such transfer shall be conditioned upon the satisfaction of the following requirements:

18.2.1 Franchisee has complied with the requirements set forth in Section 19;

18.2.2 all obligations owed to Franchisor, and all other outstanding obligations relating to the Franchised Business, are fully paid and satisfied;

18.2.3 Franchisee (and any transferring owners, if Franchisee is a business entity) has executed a general release, in a form the same as or similar to the General Release attached as Exhibit 1, of any and all claims against Franchisor, including its officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities), including, without limitation, claims arising under federal, state or local laws, rules or ordinances, and any other matters incident to the termination of this Agreement or to the transfer of Franchisee's interest herein or to the transfer of Franchisee's ownership of all or any part of the Franchise; provided, however, that if a general release is prohibited, Franchisee shall give the maximum release allowed by law;

18.2.4 the prospective transferee has satisfied Franchisor that it meets Franchisor's management, business and financial standards, and otherwise possesses the character and capabilities, including business reputation and credit rating, as Franchisor may require to demonstrate ability to conduct the Franchised Business;

18.2.5 the transferee and, if Franchisor requires, all persons owning any interest in the transferee, have executed the then-current franchise agreement for new franchisees, which may be substantially different from this Agreement, including different Royalty Fee and Marketing Fund Contribution rates and other material provisions, and the franchise agreement then executed shall be for the term specified in such agreement;

18.2.6 the transferee has executed a general release, in a form the same as or similar to the General Release attached as Exhibit 1, of any and all claims against Franchisor and its officers, directors, shareholders, managers, members, partners, owners, employees and agents (in their corporate and individual capacities), with respect to any representations regarding the Franchise or the business conducted pursuant thereto or any other matter that may have been made to the transferee by Franchisee;

18.2.7 Franchisee has provided Franchisor with a complete copy of all contracts and agreements and related documentation between Franchisee and the prospective transferee relating to the intended sale or transfer of the Franchise;

18.2.8 Franchisee, or the transferee, has paid to Franchisor, at the time Franchisee provides notice to Franchisor and application for Franchisor's consent to such transfer a transfer fee in the

amount of TEN THOUSAND DOLLARS (\$10,000.00), which shall be partially refundable if (and only if) the Franchisor does not consent to such transfer or the transfer otherwise does not close for any reason (in which case Franchisor will refund the lesser of FIVE THOUSAND DOLLARS (\$5,000.00) or the full amount of such transfer fee less Franchisor's actual costs incurred in connection with evaluating and administering such transfer;

18.2.9 the transferee, or all holders of a legal or beneficial interest in the transferee, has agreed to be personally bound jointly and severally by all provisions of this Agreement for the remainder of its term by executing an Unlimited Guaranty and Assumption of Obligations in such form as prepared by Franchisor;

18.2.10 Franchisee has agreed to be bound to the obligations of the new franchise agreement and to guarantee the full performance thereof by the transferee, if required by Franchisor;

18.2.11 the transferee has obtained all necessary consents and approvals by third parties (such as the lessor of the Approved Location) and all applicable federal, state and local laws, rules, ordinances and requirements applicable to the transfer have been complied with or satisfied;

18.2.12 Franchisee has, and if Franchisee is an entity, all of the holders of a legal and beneficial interest in Franchisee have executed and delivered to Franchisor a non-disclosure and non-competition agreement in a form satisfactory to Franchisor and in substance the same as the non-disclosure and non-competition covenants contained in Sections 7 and 17;

18.2.13 the transferee agrees to make such capital expenditures, including any remodeling of the Approved Location as Franchisor may deem appropriate and reasonably necessary to maintain uniformity with any Franchisor-required System modifications such that the Franchised Business, as operated by the transferee, reflects Franchisor's then-current standards and specifications;

18.2.14 the transferee agrees that its Designated Manager shall complete, to Franchisor's satisfaction, a training program in substance similar to the initial training described in Section 8.1 prior to assuming the management of the day-to-day operation of the Franchised Business; and

18.2.15 the transferee has obtained all necessary types of insurance as described in Section 15.1.

### **18.3 Transfer to a Controlled Entity**

18.3.1 If Franchisee wishes to transfer this Agreement or any interest herein to a corporation, limited liability company or other legal entity which shall be entirely owned by Franchisee ("Controlled Entity"), which Controlled Entity is being formed for the financial planning, tax or other convenience of Franchisee, Franchisor's consent to such transfer shall be conditioned upon the satisfaction of the following requirements:

18.3.1.1 the Controlled Entity is newly organized and its charter provides that its activities are confined exclusively to the operation of the Franchised Business;

18.3.1.2 Franchisee or all holders of a legal or beneficial interest in Franchisee own all of the equity and voting power of the outstanding stock or other capital interest in the Controlled Entity;

18.3.1.3 all obligations of Franchisee to Franchisor or any Affiliate are fully paid and satisfied; provided, however, that neither Franchisee nor the Controlled Entity shall be required to pay a transfer fee as required pursuant to Section 18.2.8;

18.3.1.4 the Controlled Entity has entered into a written agreement with Franchisor expressly assuming the obligations of this Agreement and all other agreements relating to the operation

of the Franchised Business. If the consent of any other party to any such other agreement is required, Franchisee has obtained such written consent and provided the same to Franchisor prior to consent by Franchisor;

18.3.1.5 all holders of a legal or beneficial interest in the Controlled Entity have entered into an agreement with Franchisor jointly and severally guaranteeing the full payment of the Controlled Entity's obligations to Franchisor and the performance by the Controlled Entity of all the obligations of this Agreement;

18.3.1.6 each stock certificate or other ownership interest certificate of the Controlled Entity has conspicuously endorsed upon the face thereof a statement in a form satisfactory to Franchisor that it is held subject to, and that further assignment or transfer thereof is subject to, all restrictions imposed upon transfers and assignments by this Agreement; and

18.3.1.7 copies of the Controlled Entity's articles of incorporation or organization, bylaws, operating agreement, federal tax identification number and other governing regulations or documents, including resolutions of the board of directors authorizing entry into this Agreement, have been promptly furnished to Franchisor. Any amendment to any such documents shall also be furnished to Franchisor immediately upon adoption.

18.3.2 The term of the transferred franchise shall be the unexpired term of this Agreement, including all renewal rights, subject to any and all conditions applicable to such renewal rights.

18.3.3 Franchisor's consent to a transfer of any interest in this Agreement, or of any ownership interest in the Franchised Business, shall not constitute a waiver of any claims Franchisor may have against the transferor or the transferee, nor shall it be deemed a waiver of Franchisor's right to demand compliance with the terms of this Agreement.

#### **18.4 Franchisor's Disclosure to Transferee**

Franchisor has the right, without liability of any kind or nature whatsoever to Franchisee, to make available for inspection by any intended transferee of Franchisee all or any part of Franchisor's records relating to this Agreement, the Franchised Business or to the history of the relationship of the parties hereto. Franchisee hereby specifically consents to such disclosure by Franchisor and shall release and hold Franchisor harmless from and against any claim, loss or injury resulting from an inspection of Franchisor's records relating to the Franchised Business by an intended transferee identified by Franchisee.

#### **18.5 For-Sale Advertising**

Franchisee shall not, without prior written consent of Franchisor, place in, on or upon the location of the Franchised Business, or in any communication media, any form of advertising relating to the sale of the Franchised Business or the rights granted hereunder.

## **18.6 Transfer by Death or Incapacity**

18.6.1 Upon the death or Incapacity of Franchisee (if Franchisee is an individual) or any holder of a legal or beneficial interest in Franchisee (if Franchisee is a business entity), the appropriate representative of such person (whether administrator, personal representative or trustee) shall, within a reasonable time not exceeding one hundred eighty (180) days following such event, transfer such individual's interest in the Franchised Business or in Franchisee to a third party approved by Franchisor. Such transfers, including transfers by will or inheritance, shall be subject to the conditions for assignments and transfers contained in this Agreement, unless prohibited by the laws of the state wherein Franchisee resided, with such choice of law provision being applicable only for this Section 18.6. During such one hundred eighty (180) day period, the Franchised Business must remain at all times under the primary management of a Designated Manager who otherwise meets Franchisor's management qualifications.

18.6.2 Following such a death or Incapacity of such person as described in this Section, if necessary in Franchisor's discretion, Franchisor shall have the right, but not the obligation, to assume operation of the Franchised Business until the deceased or incapacitated owner's interest is transferred to a third party approved by Franchisor. Franchisor may charge a management fee as stated in the Operations Manual from time to time, currently equal to SIX HUNDRED DOLLARS (\$600.00) per day, and Franchisor shall be entitled to reimbursement of any expenses Franchisor incurs that are not paid out of the operating cash flow of the Franchised Business.

## **§19 RIGHT OF FIRST REFUSAL**

### **19.1 Submission of Offer**

If Franchisee, or any of its owners, proposes to sell or otherwise transfer (including a transfer by death or Incapacity pursuant to Section 18.6) the Franchised Business (or any of its assets outside of the normal course of business), any ownership interest in Franchisee or any ownership interest in the Franchise granted hereunder, Franchisee shall obtain and deliver a *bona fide*, executed written offer or proposal to purchase, along with all pertinent documents including any contract or due diligence materials, to Franchisor, except with regards to a sale or transfer to a family member. The offer must apply only to an approved sale of the assets or interests listed above and may not include any other property or rights of Franchisee or any of its owners.

### **19.2 Franchisor's Right to Purchase**

Franchisor shall, for thirty (30) days from the date of delivery of all such documents, have the right, exercisable by written notice to Franchisee, to purchase the offered assets or interest for the price and on the same terms and conditions contained in such offer communicated to Franchisee. Franchisor has the right to substitute cash for the fair market value of any form of payment proposed in such offer. Franchisor's credit shall be deemed at least equal to the credit of any proposed buyer. After providing notice to Franchisee of Franchisor's intent to exercise this right of first refusal, Franchisor shall have up to sixty (60) days to close the purchase. Franchisor shall be entitled to receive from Franchisee all customary representations and warranties given by Franchisee as the seller of the assets or such ownership interest or, at Franchisor's election, such representations and warranties contained in the proposal. Notwithstanding anything to the contrary, Franchisor may exercise its rights under this Section 19.2 directly, or through an Affiliate of Franchisor, another existing franchisee of Franchisor, or any third-party acceptable to Franchisor that in connection with such purchase becomes a franchisee of Franchisor.

### **19.3 Non-Exercise of Right of First Refusal**

If Franchisor does not exercise its right of first refusal within thirty (30) days from the date of delivery of all such documents, the offer or proposal may be accepted by Franchisee or any of its

owners, subject to Franchisor's prior written approval as required by Section 18.2. Should the sale fail to close within one hundred eighty (180) days after the offer is delivered to Franchisor, Franchisor's right of first refusal shall renew and be implemented in accordance with this Section.

#### **19.4 Sales or Transfers to Family Excepted**

If Franchisee, or any of its owners, proposes to sell or otherwise transfer the Franchised Business (or any of its assets outside of the normal course of business), any ownership interest in Franchisee or any ownership interest in the Franchise granted hereunder to a member of Franchisee's (or its owners') family, then the terms and conditions of this Section 19 shall be inapplicable. Nothing in this Section 19.4 shall be construed to relieve Franchisee from full compliance with the terms and conditions of Section 18.2 prior to a sale or transfer to family pursuant to this Section.

#### **§20 BENEFICIAL OWNERS OF FRANCHISEE**

Franchisee represents, and Franchisor enters into this Agreement in reliance upon such representation, that the individuals identified in Exhibit 4 are the sole holders of a legal or beneficial interest (in the stated percentages) of Franchisee.

#### **§21 RELATIONSHIP AND INDEMNIFICATION**

##### **21.1 Relationship**

This Agreement is purely a contractual relationship between the parties and does not appoint or make Franchisee an agent, legal representative, joint venturer, partner, employee, servant or independent contractor of Franchisor for any purpose whatsoever. Franchisee may not represent or imply to third parties that Franchisee is an agent of Franchisor, and Franchisee is in no way authorized to make any contract, agreement, warranty or representation on behalf of Franchisor, or to create any obligation, express or implied, on Franchisor's behalf. During the term of this Agreement, and any extension or renewal hereof, Franchisee shall hold itself out to the public only as a franchisee and an owner of the Franchised Business operating the Franchised Business pursuant to a franchise from Franchisor. Franchisee shall take such affirmative action as may be necessary to do so including, without limitation, exhibiting a notice of that fact in a conspicuous place on the Approved Location and on all forms, stationery or other written materials, the content of which Franchisor has the right to specify. Under no circumstances shall Franchisor be liable for any act, omission, contract, debt, nor any other obligation of Franchisee. Franchisor shall in no way be responsible for any injuries to persons or property resulting from the operation of the Franchised Business. Any third party contractors and vendors retained by Franchisee to convert or construct the premises are independent contractors of Franchisee alone.

##### **21.2 Standard of Care**

This Agreement does not establish a fiduciary relationship between the parties. Unless otherwise specifically provided in this Agreement with respect to certain issues, whenever this Agreement requires Franchisee to obtain Franchisor's written consent or permits Franchisee to take any action or refrain from taking any action, Franchisor is free to act in its own self-interest without any obligation to act reasonably, to consider the impact on Franchisee or to act subject to any other standard of care limiting Franchisor's right, except as may be provided by statute or regulation.

##### **21.3 Indemnification**

To the fullest extent permitted by law, Franchisee shall, at Franchisee's sole cost and expense, hold harmless and indemnify Franchisor, any Affiliate, all holders of a legal or beneficial interest in Franchisor and all officers, directors, executives, managers, members, partners, owners, employees, agents, successors and assigns (collectively "Franchisor Indemnitees") from and against all losses, damages, fines, costs, expenses or liability (including reasonable attorneys' fees and all other costs of litigation) incurred in connection with any action, suit, demand, claim, investigation or proceeding, or

any settlement thereof, which arises from or is based upon (a) any personal injury, bodily injury or property damage whatsoever occurring in or at the location of the Franchised Business; (b) any bodily injury to an employee of Franchisee arising out of and in the course of employment of the employee; (c) Franchisee's ownership or operation of the Franchised Business; (d) Franchisee's breach of the lease for the Approved Location; (e) Franchisee's violation, breach or asserted violation or breach of any federal, state or local law, regulation or rule; (f) Franchisee's breach of any representation, warranty, covenant, or provision of this Agreement or any other agreement between Franchisee and Franchisor (or an Affiliate); (g) Franchisee's defamation of Franchisor or the System; (h) Franchisee's acts, errors or omissions committed or incurred in connection with the Franchised Business and or place of operations, including any negligent or intentional acts; or (i) Franchisee's infringement, violation or alleged infringement or violation of any Mark, patent or copyright or any misuse of the Trade Secrets or other Confidential Information. The obligations of this Section shall expressly survive the termination of this Agreement.

#### **21.4 Right to Retain Counsel**

Franchisee shall give Franchisor immediate notice of any such action, suit, demand, claim, investigation or proceeding that may give rise to a claim for indemnification by a Franchisor Indemnitee. Franchisor has the right to retain counsel of its own choosing in connection with any such action, suit, demand, claim, investigation or proceeding. In order to protect persons, property, Franchisor's reputation or the goodwill of others, Franchisor has the right to, at any time without notice, take such remedial or corrective actions as it deems expedient with respect to any action, suit, demand, claim, investigation or proceeding if, in Franchisor's sole judgment, there are grounds to believe any of the acts or circumstances listed above have occurred. If Franchisor's exercise of its rights under this Section to take corrective or remedial action, causes any of Franchisee's insurers to refuse to pay a third-party claim, all cause of action and legal remedies Franchisee might have against such insurer shall automatically be assigned to Franchisor without the need for any further action on either party's part. Under no circumstances shall Franchisor be required or obligated to seek coverage from third parties or otherwise mitigate losses in order to maintain a claim against Franchisee. The failure to pursue such remedy or mitigate such loss shall in no way reduce the amounts recoverable by Franchisor from Franchisee.

### **§22 GENERAL CONDITIONS AND PROVISIONS**

#### **22.1 No Waiver**

No failure of Franchisor to exercise any power reserved to it hereunder, or to insist upon strict compliance by Franchisee with any obligation or condition hereunder, and no custom nor practice of the parties in variance with the terms hereof, shall constitute a waiver of Franchisor's right to demand exact compliance with the terms of this Agreement. Waiver by Franchisor of any particular default by Franchisee shall not be binding unless in writing and executed by Franchisor and shall not affect nor impair Franchisor's right with respect to any subsequent default of the same or of a different nature. Subsequent acceptance by Franchisor of any payment(s) due shall not be deemed to be a waiver by Franchisor of any preceding breach by Franchisee of any terms, covenants or conditions of this Agreement.

#### **22.2 Reasonableness of Remedies; Equitable Relief**

Franchisee and the part(ies) executing the "*Personal Acceptance of Sections 7.1, 7.2, 17.2, and 22.2*" (the "Franchisee Principal(s)") hereby acknowledge and agree that the restrictions contained in this Agreement, are fair and reasonable and necessary for the protection of Franchisor's legitimate business interests and Franchisee and the Franchisee Principal(s) intend and agree that such restrictions be enforceable and enforced to their fullest extent. Franchisee and Franchisee's Principal(s) further understand and agree that any breach by Franchisee or Franchisee's Principal(s) of any of the

restrictions contained in Sections 6, 7 and 17 would result in irreparable injury to Franchisor, and as the damages arising out of any such breach would be difficult to ascertain, in addition to all other remedies provided by law or in equity, Franchisor shall be entitled to seek injunctive relief (whether a restraining order, a preliminary injunction or a permanent injunction) against any such breach, whether actual or contemplated, without the necessity of posting security or bond and Franchisee and Franchisee's Principal(s) shall be responsible for Franchisor's reasonable attorneys' fees incurred in pursuing the same. Franchisor's right to seek injunctive relief will not affect the parties' waiver of jury trial and covenant to arbitrate all disputes in accordance with Section 23.6. Franchisor's rights herein shall include pursuing injunctive relief through arbitration or in a state or federal court.

### **22.3 Notices**

All notices required or permitted under this Agreement shall be in writing and shall be deemed received: (a) at the time delivered by hand to the recipient party (or to an officer, director or partner of the recipient party); (b) on the next business day after transmission by facsimile or other reasonably reliable electronic communication system; (c) two (2) business days after being sent via guaranteed overnight delivery by a commercial courier service; or (d) five (5) business days after being sent by Registered Mail, return receipt requested. Either party may change its address by a written notice sent in accordance with this Section. All notices, payments and reports required by this Agreement shall be sent to Franchisor at the following address:

DRNK Coffee + Tea Franchising, LLC  
Attn: Legal Dept.  
350 S Grand Ave., Suite 3070  
Los Angeles, CA 90071

### **22.4 Cost of Enforcement or Defense**

If Franchisor or Franchisee is required to enforce this Agreement in a judicial or arbitration proceeding, the prevailing party shall be entitled to reimbursement of its costs, including reasonable accounting and attorneys' fees, in connection with such proceeding.

### **22.5 Unlimited Guaranty and Assumption of Obligations**

All holders of a legal or beneficial interest in Franchisee of five percent (5%) or greater shall be required to execute, as of the date of this Agreement, the Unlimited Guaranty and Assumption of Obligations attached as Exhibit 3, through which such holders agree to assume and discharge all of Franchisee's obligations under this Agreement and to be personally liable hereunder for all of the same.

### **22.6 Approvals**

Whenever this Agreement requires the prior approval or consent of Franchisor, Franchisee shall make a timely written request to Franchisor for such approval and, except as otherwise provided herein, any approval or consent granted shall be effective only if in writing. Franchisor makes no warranties or guarantees upon which Franchisee may rely and assumes no liability or obligation to Franchisee or any third party to which it would not otherwise be subject, by providing any waiver, approval, advice, consent or services to Franchisee in connection with this Agreement, or by reason of any neglect, delay or denial of any request for approval.

### **22.7 Entire Agreement**

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

### **22.8 Severability and Modification**

22.8.1 Except as noted below, each paragraph, part, term and provision of this Agreement shall be considered severable. If any paragraph, part, term or provision herein is ruled to be unenforceable, unreasonable or invalid, such ruling shall not impair the operation of or affect the remaining portions, paragraphs, parts, terms and provisions of this Agreement, and the latter shall continue to be given full force and effect and bind the parties; and such unenforceable, unreasonable or invalid paragraphs, parts, terms or provisions shall be deemed not part of this Agreement. If Franchisor determines that a finding of invalidity adversely affects the basic consideration of this Agreement, Franchisor has the right to, at its option, terminate this Agreement.

22.8.2 Notwithstanding the above, each of the covenants contained in Sections 7 and 17 shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of any such covenant is held to be unenforceable, unreasonable or invalid, then it shall be amended to provide for limitations on disclosure of Trade Secrets or other Confidential Information or on competition to the maximum extent provided or permitted by law.

## **22.9 Construction**

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

## **22.10 Force Majeure**

Whenever a period of time is provided in this Agreement for either party to perform any act, except pay monies, neither party shall be liable nor responsible for any delays due to strikes, lockouts, casualties, acts of God, war, terrorism, governmental regulation or control or other causes beyond the reasonable control of the parties, and the time period for the performance of such act shall be extended for the amount of time of the delay. This clause shall not result in an extension of the term of this Agreement.

## **22.11 Timing**

Time is of the essence. Except as set forth in Section 22.10, failure to perform any act within the time required or permitted by this Agreement shall be a material breach.

## **22.12 Withholding Payments**

Franchisee shall not, for any reason, withhold payment of any Royalty Fees or other amounts due to Franchisor or to an Affiliate. Franchisee shall not withhold or offset any amounts, damages or other monies allegedly due to Franchisee against any amounts due to Franchisor. No endorsement or statement on any payment for less than the full amount due to Franchisor will be construed as an acknowledgment of payment in full, or an accord and satisfaction, and Franchisor has the right to accept and cash any such payment without prejudice to Franchisor's right to recover the full amount due, or pursue any other remedy provided in this Agreement or by law. Franchisor has the right to apply any payments made by Franchisee against any of Franchisee's past due indebtedness as Franchisor deems appropriate. Franchisor shall set off sums Franchisor owes to Franchisee against any unpaid debts owed by Franchisee to Franchisor.

## **22.13 Further Assurances**

Each party to this Agreement will execute and deliver such further instruments, contracts, forms or other documents, and will perform such further acts, as may be necessary or desirable to perform or complete any term, covenant or obligation contained in this Agreement.

## **22.14 Third-Party Beneficiaries**

Anything to the contrary notwithstanding, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity other than Franchisor or Franchisee, and their



respective successors and assigns as may be contemplated by this Agreement, any rights or remedies under this Agreement.

#### **22.15 Multiple Originals**

Both parties will execute multiple copies of this Agreement, and each executed copy will be deemed an original.

### **§23 DISPUTE RESOLUTION**

#### **23.1 Choice of Law**

Except to the extent this Agreement or any particular dispute is governed by the U.S. Trademark Act of 1946 or other federal law, this Agreement shall be governed by and construed in accordance with the laws of the State of California (without reference to its conflict of laws principles). The parties hereby submit all such disputes not governed by the U.S. Trademark Act of 1946 (or breaches of the Non-compete Provisions hereof set forth in Exhibit 2 hereof) to binding arbitration as their exclusive forum and remedy with the Federal Arbitration Act to exclusively govern the procedure for all such arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency.

#### **23.2 Consent to Jurisdiction**

Any action brought by either party except those claims required to be submitted to arbitration, shall only be brought in the appropriate state or Federal courts located in or serving Los Angeles, California. The parties waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision. Claims for injunctive relief may be brought by Franchisor where Franchisee is located. This exclusive choice of jurisdiction and venue provision shall not restrict the ability of the parties to confirm or enforce judgments or arbitration awards in any appropriate jurisdiction.

#### **23.3 Cumulative Rights and Remedies**

No right or remedy conferred upon or reserved to Franchisor or Franchisee by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be in addition to every other right or remedy. Nothing contained herein shall bar Franchisor's right to obtain injunctive relief against threatened conduct that may cause it loss or damages, including obtaining restraining orders and preliminary and permanent injunctions.

#### **23.4 Limitation of Damages**

Franchisee and Franchisor each waive, to the fullest extent permitted by law, any right or claim for any punitive or exemplary damages against the other and agree that if there is a dispute with the other, each will be limited to the recovery of actual damages sustained by it including reasonable accounting and legal fees as provided in Section 22.4. Franchisee waives and disclaims any right to consequential damages in any action or claim against Franchisor concerning this Agreement or any related agreement. In any claim or action brought by Franchisee against Franchisor concerning this Agreement, Franchisee's contract damages shall not exceed and shall be limited to refund of Franchisee's Franchise Fee and Royalty Fees.

#### **23.5 Waiver of Jury Trial**

Franchise and Franchisor Each irrevocably waive trial by jury in any action, whether at law or equity, brought by either of them.

#### **23.6 Arbitration**

23.6.1 This Agreement evidences a transaction involving commerce and, therefore, the Federal Arbitration Act, Title 9 of the United States Code is applicable to the subject matter contained herein.

Except for controversies or claims relating to intellectual property rights, including, but not limited to, Franchisor's Marks, copyrights or the unauthorized use or disclosure of Franchisor's Confidential Information, covenants against competition and other claims for injunctive relief, all disputes arising out of or relating to this Agreement or to any other agreements between the parties, or with regard to interpretation, formation or breach of this or any other agreement between the parties (except the Non-compete Agreement attached hereto as Exhibit 2), shall be settled by the parties submitting such dispute to the Judicial Arbitration and Mediation Service ("JAMS") for binding arbitration by a single arbitrator in accordance with the commercial arbitration rules of JAMS in effect at the time the arbitration commences. The decision of the arbitrator shall be final and binding upon the parties. The arbitration proceedings shall be held in Los Angeles, California. Judgment upon the award rendered by the arbitrator may be entered in any court having personal and subject matter jurisdiction.

23.6.2 Franchisee acknowledges that it has read the terms of this binding arbitration provision and affirms that this provision is entered into willingly and voluntarily and without any fraud, duress or undue influence on the part of Franchisor or any of Franchisor's agents or employees.

## **§24 ACKNOWLEDGEMENTS AND REPRESENTATIONS OF FRANCHISEE**

### **24.1 Receipt of this Agreement and the Franchise Disclosure Document**

Franchisee represents and acknowledges that it has received, read and understands this Agreement and Franchisor's Franchise Disclosure Document; and that Franchisor has accorded Franchisee ample time and opportunity to consult with advisors of its own choosing about the potential benefits and risks of entering into this Agreement. Franchisee represents and acknowledges that it has received, at least fourteen (14) calendar-days prior to the date on which this Agreement was executed, the Disclosure Document required by the Trade Regulation Rule of the Federal Trade Commission entitled Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures.

### **24.2 Consultation by Franchisee**

Franchisee represents that it has been urged to consult with its own advisors with respect to the legal, financial and other aspects of this Agreement, the business franchised hereby and the prospects for that business. Franchisee represents that it has either consulted with such advisors or has deliberately declined to do so.

### **24.3 True and Accurate Information**

Franchisee represents that all information set forth in any and all applications, financial statements and submissions to Franchisor is true, complete and accurate in all respects, and Franchisee acknowledges that Franchisor is relying upon the truthfulness, completeness and accuracy of such information.

### **24.4 Risk**

Franchisee represents that it has conducted an independent investigation of the business contemplated by this Agreement and acknowledges that, like any other business, an investment in a Franchised Business involves business risks and that the success of the venture is dependent, among other factors, upon the business abilities and efforts of Franchisee. Franchisor makes no representations or warranties, express or implied, in this Agreement or otherwise, as to the potential success of the business venture contemplated hereby.

### **24.5 No Guarantee of Success**

Franchisee represents and acknowledges that it has not received or relied on any guarantee, express or implied, as to the revenues, profits or likelihood of success of the Franchised Business. Franchisee represents and acknowledges that there have been no representations by Franchisor's

officers, directors, employees or agents that are not contained in, or are inconsistent with, the statements made in the Franchise Disclosure Document or this Agreement.

#### **24.6 No Violation of Other Agreements**

Franchisee represents that its execution of this Agreement will not violate any other agreement or commitment to which Franchisee or any holder of a legal or beneficial interest in Franchisee is a party.

#### **24.7 Severability**

If a provision of this Agreement is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect: the validity or enforceability in that jurisdiction of any other provision of this Agreement; or the validity or enforceability in other jurisdictions of that or any other provision of this Agreement.

#### **24.8 Certain Representations and Warranties of Franchisee**

Franchisee (hereafter referred to in this Section 24.8 as “you”) represents and warrants that the following statements are true and complete as of the Effective Date:

24.8.1 You do not seek to obtain the Franchised Business for speculative or investment purposes and have no present intention to sell or transfer or attempt to sell or transfer the Franchised Business.

24.8.2 You understand and acknowledge the value to the System of uniform and ethical standards of quality, appearance, and service described in and required by the Operations Manual and the necessity of operating the Franchised Business under the System standards. You represent that you have the capabilities, professionally, financially and otherwise, to comply with our System standards.

24.8.3 If you are a corporation, limited liability company, partnership, or other form of entity, you are duly incorporated, organized, or formed and are qualified to do business in the state and any other applicable jurisdiction within which the Franchised Business is located, and you are and shall remain duly organized and in good standing during the Term.

24.8.4 You represent and warrant that: (i) if you are an individual, you are; or (ii) if you are an entity, that each of your owners, shareholders, partners, and members are, a United States citizen or a lawful resident alien of the United States.

24.8.5 All financial and other information that you have provided to us in connection with your application for this franchise is true and accurate.

24.8.6 The execution of this Agreement by you will not constitute or violate any other agreement or commitment to which you are a party.

24.8.7 Any individual executing this Agreement on your behalf is duly authorized to do so and the Agreement shall constitute your valid and binding obligation and, if applicable, all of your partners, members, or shareholders, if you are a partnership, limited liability company, or corporation.

24.8.8 You have, or if you are a partnership, corporation or other entity, your partners or principals have, carefully read this Agreement and all other related documents to be executed by you concurrently or in conjunction with the execution hereof; that you have obtained, or had the opportunity to obtain, the advice of counsel in connection with the execution and delivery of this Agreement; that you understand the nature of this Agreement and that you intend to comply with and be bound by this Agreement.

24.8.9 You have read and understand the information and disclosures made in the Disclosure Document provided to you as acknowledged in Section 24.10.5. You understand and acknowledge

that: (i) estimates for initial start-up expenses are estimates only and there can be additional start-up expenses; and (ii) your sales may differ substantially from the sales provided in Item 19 of the Disclosure Document, and there is no assurance that your sales will meet or exceed the sales listed in Item 19 of the Disclosure Document. You have had the opportunity to and have consulted or elected not to consult with your attorney, accountant and business advisors before entering into this Agreement.

24.8.10 You understand and agree that, while not applicable in every case, our past experience indicates that owner-operated stores generally perform better than absentee owners with hired managers. The food business is a personal business and is dependent upon your business skill and judgment. This includes your choice of employees. Your skill in hiring the right people to work in your Franchised Business is very important in determining whether people decide to purchase menu items from your Franchised Business or from another restaurant in the same vicinity.

24.8.11 You understand and agree that ownership of a franchise and the Franchised Business carries certain risks. These risks include the loss of your initial investment, other continued financial losses such as rent payments due under lease obligations and other contractual obligations, the loss of your time and energy in starting up and running your Franchised Business, and loss of earnings and investment income from your investment in the Franchised Business. You understand and agree that the Franchised Business may make money and may lose money and are entering this business venture with this express understanding. You are not relying upon anything which is not contained within this Agreement or the Disclosure Document in determining and deciding to become a franchisee.

24.8.12 Notwithstanding the foregoing, you understand and agree that the System must not remain static if it is to meet (without limitation) presently unforeseen changes in technology, competitive circumstances, demographics, populations, consumer trends, social trends and other market place variables, and if it is to best serve the interests of us, you and all other franchisees. Accordingly, you expressly understand and agree that we may from time to time change the components of the System, including altering the products, programs, services, methods, standards, forms, policies and procedures of that System; abandoning the System altogether in favor of another system in connection with a merger, acquisition or other business combination or for other reasons; adding to, deleting from or modifying those products, programs and services which your Franchised Business is authorized and required to offer, modifying or substituting entirely the equipment, signage, trade dress, décor, color schemes and uniform System standards and specifications and all other unit constructions, design, appearance and operation attributes which you are required to observe under this Agreement; and, abandoning, changing, improving, modifying or substituting the Marks. You expressly agree to comply with any such modifications, changes, additions, deletions, substitutions and alterations. You shall accept, use and effectuate any such changes or modifications to, or substitution of, the System as if they were part of the System at the time that this Agreement was executed. Except as provided herein, we shall not be liable to you for any expenses, losses or damages sustained by you as a result of any of the modifications contemplated hereby.

24.8.13 You represent that neither you nor any of your affiliates, officers, directors, managers, members, or partners (as applicable) or funding sources are subject to U.S. Executive Order 13224, identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specially Designated National and Blocked Persons list, or any terrorist list or other blocked persons list. In addition, you represent that you have not received funding from, nor are you owned, controlled, or acting on behalf of the government of any country that is subject to an embargo by the United States, any foreign government official, political party or international organization, and that no foreign government or government official, political party or international organization has any financial interest in the Franchised Business or any monies earned by the Franchised Business.

24.8.14 You represent, warrant and agree that you, your officers, directors, managers, members, or partners (as applicable) will each at all times conduct themselves in an ethical manner and avoid any activity that might result in a violation of the U.S. Foreign Corrupt Practices Act, Anti-Terrorism Laws, or any other applicable anti-corruption or bribery laws.

## **24.9 Additional Information Respecting Franchisee**

24.9.1 Franchisee has delivered to Franchisor or will deliver concurrent herewith, complete and accurate copies of all of your organizational documents, including all partnership agreements, certificates of partnership, articles of organization, operating agreements, articles or certificates of incorporation, by-laws and shareholder agreements, including all amendments, side letters and other items modifying such documents.

24.9.2 Franchisee has completed and signed the Franchisee Questionnaire attached to the Disclosure Document as Exhibit G and incorporated herein this Agreement by this reference.

## **24.10 Acknowledgements of Franchisee**

24.10.1 Franchisee (sometimes hereafter referred to in this Section 24.10 as “you”) acknowledge(s) that you have conducted an independent investigation of the business venture contemplated by this Agreement and recognize that this business venture involves substantial business risks and will largely depend upon your ability. Other than the financial performance representation contained in Item 19 of the Disclosure Document, Franchisor (sometimes hereafter in this Section 24.10 referred to as “we” or “us” or “our”) expressly disclaims making, and you acknowledge that you have not received or relied on, any warranty or guarantee, express or implied, as to the potential volume, profits, or success of the Franchised Business contemplated by this Agreement.

Franchisee Initials \_\_\_ / \_\_\_

24.10.2 You hereby certify that none of our employees, no other person speaking on our behalf, have: (i) made any additional oral, written, visual, or other representation, agreement, commitment, claim, or statement that stated or suggested any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise other than the financial performance representation contained in Item 19 of the Disclosure Document; or (ii) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement from which any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise might be ascertained, related to a DRNK or QWENCH franchise, that is different from, contrary to, or not contained in the Disclosure Document; or (iii) made any representation, agreement, commitment, claim or statement to you that is different from, contrary to, or not contained in, the Disclosure Document. You acknowledge and agree that we do not make or endorse, nor do we allow any of our employees or other persons speaking on our behalf to make or endorse, any additional oral, written, visual, or other representation, agreement, commitment, claim, or statement that states or suggests any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise with respect to a DRNK or QWENCH franchise other than the financial performance representation contained in Item 19 of the Disclosure Document.

Franchisee Initials \_\_\_ / \_\_\_

24.10.3 You acknowledge that you have received, read and understand this Agreement and the related exhibits, attachments and agreements and that we have afforded you sufficient time and opportunity to consult with advisors selected by you about the potential benefits and risks of entering into this Agreement.

Franchisee Initials \_\_\_ / \_\_\_

24.10.4 You understand that this Agreement, including any amendments and exhibits, contains the entire agreement between the parties concerning the Franchised Business, and that any prior oral or written statements that are not set out in this Agreement, including any amendments, exhibits and attachments will not be binding. You acknowledge and agree that we do not permit any representations, agreements, commitments, claims, or statements or approve any changes in this Agreement or any of the amendments, exhibits and attachments to this Agreement, except by means of a written amendment or addendum signed by all parties to this Agreement. You acknowledge that nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document.

Franchisee Initials \_\_\_ / \_\_\_

24.10.5 You acknowledge receipt of our Disclosure Document fourteen (14) days prior to the execution of this Agreement or your payment of any monies to us or our agent (or sooner if required by applicable state law).

Franchisee Initials \_\_\_ / \_\_\_

24.10.6 You acknowledge that you have not received any financial statements for any of our affiliated companies. You further acknowledge that you have not relied on the financial condition of any of our affiliated companies when making the decision to purchase the Franchised Business.

Franchisee Initials \_\_\_ / \_\_\_

24.10.7 You acknowledge there have been no other inducements made with any person or entity, including the Identified Area Representative, encouraging you to purchase the Franchised Business, such as a "side deal" or other promise or agreement not included in the Agreement.

Franchisee Initials \_\_\_ / \_\_\_

24.10.8 You acknowledge and understand that Section 6 of this Agreement covers the use of the DRNK and QWENCH trademarks and prohibition on registration of our Marks. You acknowledge the ownership of the Marks by us, and you agree that during the term of this Agreement and after its expiration or termination, you will not, directly or indirectly, apply to register, register or otherwise seek to use or control or in any way use "DRNK", "QWENCH", or any other of our Marks, or any confusingly similar form or variation, in any place or jurisdiction either within or outside the United States; nor will you assist any others to do so. You further agree that your corporate, partnership or other entity name will not include any of the Marks or phrases similar thereto as a part thereof. Furthermore, you acknowledge and understand that you are prohibited from filing applications for the registration of our trade names used in connection with your Franchised Business.

Franchisee Initials \_\_\_ / \_\_\_

24.10.9 You acknowledge and understand that in the event you have registered a trade name or entity name containing our Marks, you will be required to immediately discontinue all further use of the such Mark, all of our Marks and any other marks or names confusingly similar thereto in your entity name. Furthermore, you will take such action as may be required to amend your entity name and affirmatively cancel or terminate and dissolve all fictitious or assumed names or other registrations that contain our Marks. In the event you do not comply and execute any and all instruments and documents necessary to protect and maintain our interests in the Marks, we will then have power of attorney to execute any documents necessary to protect and maintain our interests in the Marks.

Franchisee Initials \_\_\_ / \_\_\_

## **§25 SUBMISSION OF AGREEMENT**

The submission of this Agreement to you does not constitute an offer and this Agreement shall become effective only upon the execution thereof by the parties. THIS AGREEMENT SHALL NOT BE BINDING ON US UNLESS AND UNTIL IT SHALL HAVE BEEN ACCEPTED AND SIGNED BY OUR CHIEF EXECUTIVE OFFICER OR ONE OF OUR OTHER EXECUTIVE OFFICERS.

[REMAINDER OF PAGE INTENTIONALLY BLANK; SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby have duly executed this Agreement as of the Effective Date.

DRNK Coffee + Tea Franchising, LLC

[Franchisee]

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

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

\_\_\_\_\_  
Name Printed:

\_\_\_\_\_  
Name Printed:

\_\_\_\_\_  
Title:

\_\_\_\_\_  
Title:



**PERSONAL ACCEPTANCE OF SECTIONS 7.1, 7.2, 17.2, AND 22.2**

Each of the undersigned individually and personally accepts and agrees to be bound by the provisions of Sections 7.1, 7.2, 17.2, and 22.2 of the foregoing Franchise Agreement.

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(signature)

---

(print name)

---

(date)

# EXHIBIT 1 TO THE FRANCHISE AGREEMENT

## GENERAL RELEASE

This General Release is made by \_\_\_\_\_, ("RELEASOR") a/an \_\_\_\_\_ with an address of \_\_\_\_\_, in consideration of:

RELEASOR providing RELEASEE good and valuable consideration, including [Recite Consideration] and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged.

RELEASOR and each of RELEASOR'S current, past and future predecessors, successors and assigns, and each of its and the foregoing entities and person's respective parents, subsidiaries, shareholders, members, managers, owners, partners, directors, officers, employees, representative, agents, successors, assigns, guarantors, insurers, spouses, heirs, executors, trustees and estates, if any, of all such entities and persons (collectively with RELEASOR, the "RELEASOR PARTIES") hereby irrevocably and unconditionally release, remise and forever discharge RELEASEE, RELEASEE's current and former Affiliates including DRNK Coffee + Tea, LLC and DCT Real Estate, LLC, ("RELEASEE's AFFILIATES") and each of RELEASEE's and RELEASEE'S AFFILIATES current, past and future predecessors, successors and assigns, and each of its and the foregoing entities and person's respective parents, subsidiaries, shareholders, members, managers, owners, partners, directors, officers, employees, representative, agents, successors, assigns, guarantors, insurers, spouses, heirs, executors, trustees and estates, if any or all such entities and persons (collectively with RELEASEE and RELEASEE's AFFILIATES, the "RELEASEE PARTIES"), from any and all manner of claims, demands, causes of action, suites, debts, duties, accounts, covenants, contracts, agreements, promises, damages, judgments, taxes, liabilities and obligations, both contingent and fixed, known and unknown, now existing or hereafter, of every kind and nature whatsoever, in law or equity, or otherwise, under local, state, or federal law or the law of any other applicable jurisdiction, that any of the RELEASOR PARTIES have against any of the RELEASEE PARTIES (collectively, "Claims"), which RELEASOR or any of the RELEASOR PARTIES ever had, now has, or which may arise in the future, whether known or unknown, regarding any matter arising on or before the date of execution of this General Release, including, without limitation, Claims arising from, in connection with or relating to: (i) the Franchise Agreement dated as of \_\_\_\_\_, 20\_\_\_\_ (including any amendments, addendums or modifications thereto, the "Franchise Agreement"); (ii) RELEASEE's Franchise and Franchised Business (each term as defined in the Franchise Agreement) for RELEASOR's Store No. \_\_\_\_\_ operating at the Approved Location (as defined in the Franchise Agreement); (iii) the ownership, operation, leasing, or subleasing of the Franchised Business and the Store; (iv) any Claims that otherwise relate to the business relationship and arrangements between any of the RELEASOR PARTIES and any of the RELEASEE PARTIES; (v) the offering and sale of the Franchise to RELEASOR for the Franchised Business and the Store; and (vi) any and all written or oral agreements that have been entered into by any of the RELEASOR PARTIES and RELEASEE PARTIES, and any documents or instruments memorializing such agreements. Each of the RELEASOR PARTIES covenants that there has been no assignment of other transfer of any interest in any Claim which any of the RELEASOR PARTIES has or may have against the RELEASEE PARTIES. Each of the RELEASOR PARTIES covenants and agrees that such RELEASOR PARTY shall not commence, join in, or in any manner seek relief through any suit arising out of, based upon, or relating to any Claim released hereunder, or in any manner asserts or cause or assist another to assert against the RELEASEE PARTIES, any Claims released hereunder. Each of the RELEASOR PARTIES acknowledges, represents, warrants and covenants that such party has had an adequate opportunity to determine all facts necessary to make a knowing release of all Claims released hereby and further represents,

warrants and covenants that it has executed this Agreement and Release knowingly and without duress.

#### SECTION 1542 Waiver

RELEASOR and each of the RELEASOR PARTIES acknowledges and agrees that they may discover facts different from, or in addition to, those which they believe to be true with respect to the matters being released herein, and agree that this release shall remain effective in all respects notwithstanding different or additional facts or the discovery thereof. It is further expressly agreed that all rights under Section 1542 of the Civil Code of the State of California and any similar law are hereby expressly waived. Civil Code Section 1542 reads:

"Civil Code Section 1542: Claims Extinguished. A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor."

Thus, notwithstanding the provisions of Section 1542, and for the purpose of implementing a full and complete release of the RELEASEE PARTIES, each of the RELEASOR PARTIES expressly acknowledges that this General Release is also intended to include in its effect, without limitation, all claims which such RELEASOR PARTY does not know or suspect to exist at the time of such party's execution of this Agreement, and that this Agreement contemplates the extinguishment of any such claim or claims.

Any action brought by either party regarding this Release, shall only be brought in the appropriate state or federal court located in or serving Los Angeles, California. The parties waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision.

This General Release shall not be amended or modified unless such amendment or modification is in writing and is signed by RELEASOR and RELEASEE.

IN WITNESS WHEREOF, RELEASOR has executed this General Release as of the date first above written.

RELEASOR: \_\_\_\_\_  
(type/print name)

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

Name Printed: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

### ACKNOWLEDGMENT

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss

On this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ before me personally came \_\_\_\_\_, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the foregoing General Release, and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed said General Release.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

\_\_\_\_\_  
Notary Public  
My Commission expires:

(NOTARIAL SEAL)

## EXHIBIT 2 TO THE FRANCHISE AGREEMENT

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### NON-DISCLOSURE AND NON-COMPETITION AGREEMENT

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This "Agreement" is by and between \_\_\_\_\_, ("Franchisee") and \_\_\_\_\_ ("Individual").

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

WHEREAS, Franchisee is a party to that certain Franchise Agreement dated \_\_\_\_\_, 20\_\_\_\_ ("Franchise Agreement") by and between Franchisee and DRNK Coffee + Tea Franchising, LLC ("Company"); and

WHEREAS, Franchisee desires Individual to have access to and review certain Trade Secrets and other Confidential Information, which are more particularly described below; and

WHEREAS, Franchisee is required by the Franchise Agreement to have Individual execute this Agreement prior to providing Individual access to said Trade Secrets and other Confidential Information; and

WHEREAS, Individual understands the necessity of not disclosing any such information to any other party or using such information to compete against Company, Franchisee or any other franchisee of Company in any business (i) that offers or provides (or grants franchises or licenses to others to operate a business that offers or provides) a quick service food and beverage concept the same as or similar to that offered by Franchisee or (ii) in which Trade Secrets and other Confidential Information (as defined below) could be used to the disadvantage of Franchisee, or Company, any affiliate of Company or Company's other franchisees (hereinafter, "Competitive Business"); provided, however, that the term "Competitive Business" shall not apply to any business operated by Franchisee under a Franchise Agreement with Company.

NOW, THEREFORE, in consideration of the mutual promises and undertakings set forth herein, and intending to be legally bound hereby, the parties hereby mutually agree as follows:

#### 1. Trade Secrets and Confidential Information

Individual understands Franchisee possesses and will possess Trade Secrets and other Confidential Information that are important to its business.

a) For the purposes of this Agreement, a "Trade Secret" is information in any form (including, but not limited to, materials and techniques, technical or nontechnical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans, passwords, lists of actual or potential customers or suppliers) related to or used in the Franchised Business that is not commonly known by or available to the public and that information: (i) derives 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 (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

b) For the purposes of this Agreement "Confidential Information" means technical and nontechnical information used in or related to the Franchised Business that is not commonly known by or available to the public, including, without limitation, Trade Secrets and information contained in the Operations Manual and training guides and materials. In addition, any other information identified as

confidential when delivered by Franchisee shall be deemed Confidential Information. Confidential Information shall not include, however, any information that: (i) is now or subsequently becomes generally available to the public through no fault of Individual; (ii) Individual can demonstrate was rightfully in its possession, without obligation of non-disclosure, prior to disclosure pursuant to this Agreement; (iii) is independently developed without the use of any Confidential Information; or (iv) is rightfully obtained from a third party who has the right, without obligation of non-disclosure, to transfer or disclose such information.

c) Any information expressly designated by Company or Franchisee as “Trade Secrets” or “Confidential Information” shall be deemed such for all purposes of this Agreement, but the absence of designation shall not relieve Individual of his or her obligations hereunder in respect of information otherwise constituting Trade Secrets or Confidential Information. Individual understands Franchisee’s providing of access to the Trade Secrets and other Confidential Information creates a relationship of confidence and trust between Individual and Franchisee with respect to the Trade Secrets and other Confidential Information.

## **2. Confidentiality/Non-disclosure**

a) Individual shall not communicate or divulge to (or use for the benefit of) any other person, firm, association, or corporation, with the sole exception of Franchisee, now or at any time in the future, any Trade Secrets or other Confidential Information. At all times from the date of this Agreement, Individual must take all steps reasonably necessary and/or requested by Franchisee to ensure that the Confidential Information and Trade Secrets are kept confidential pursuant to the terms of this Agreement. Individual must comply with all applicable policies, procedures and practices that Franchisee has established and may establish from time to time with regard to the Confidential Information and Trade Secrets.

b) Individual’s obligations under paragraph 2(a) of this Agreement shall continue in effect after termination of Individual’s relationship with Franchisee, regardless of the reason or reasons for termination, and whether such termination is voluntary or involuntary, and Franchisee is entitled to communicate Individual’s obligations under this Agreement to any future customer or employer to the extent deemed necessary by Franchisee for protection of its rights hereunder and regardless of whether Individual or any of its affiliates or assigns becomes an investor, partner, joint venturer, broker, distributor or the like in a DRNK coffee + tea® or QWENCH juice bar or Co-Branded Business.

## **3. Non-competition**

a) During the term of Individual’s relationship with Franchisee and for a period of two (2) years after the expiration or termination of Individual’s relationship with Franchisee, regardless of the cause of expiration or termination, Individual shall not, directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity, divert or attempt to divert any business or customer of Franchisee to any Competitive Business, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Company’s trademark “DRNK coffee + tea” or “QWENCH Juice Bar and such other trade names, trademarks, service marks, trade dress, designs, graphics, logos, emblems, insignia, fascia, slogans, drawings and other commercial symbols as the Company designates to be used in connection with the Franchised Businesses or the Company’s uniform standards, methods, procedures and specifications for the establishment and operation of a Franchised Business.

b) During the term of Individual's relationship with Franchisee, Individual shall not, directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity, carry on, be engaged in or take part in, render services to, or own or share in the earnings of any Competitive Business anywhere within a twenty-five (25) mile radius of the Franchisee's Approved Location without the express written consent of Franchisee.

c) For a two (2) year period following the term of Individual's relationship with Franchisee, regardless of the cause of termination, Individual shall not, directly or indirectly, for themselves or through, on behalf of or in conjunction with, any person, persons, partnership, corporation, limited liability company or other business entity, carry on, be engaged in or take part in, render services to, or own or share in the earnings of any Competitive Business within a twenty-five (25) mile radius of Franchisee's Approved Location or within twenty-five (25) miles of any other DRNK coffee + tea® or QWENCH juice bar or Co-Branded Business without the express written consent of Franchisee.

d) During the term of Individual's relationship with Franchisee and for a period of two (2) years thereafter, regardless of the cause of termination, Individual shall not, directly or indirectly, solicit or otherwise attempt to induce or influence any employee or other business associate of Franchisee, Company or any other DRNK/QWENCH Business to compete against, or terminate or modify his, her or its employment or business relationship with, Franchisee, Company or any other DRNK coffee + tea® or QWENCH juice bar or Co-Branded Business.

#### **4. Reasonableness of Restrictions**

Individual acknowledges that each of the terms set forth herein, including the restrictive covenants, is fair and reasonable and is reasonably required for the protection of Franchisee, Company, and Company's Trade Secrets and other Confidential Information, the Company's business system, network of franchises and trade and service marks, and Individual waives any right to challenge these restrictions as being overly broad, unreasonable or otherwise unenforceable. If, however, a court of competent jurisdiction determines that any such restriction is unreasonable or unenforceable, then Individual shall submit to the reduction of any such activity, time period or geographic restriction necessary to enable the court to enforce such restrictions to the fullest extent permitted under applicable law. It is the desire and intent of the parties that the provisions of this Agreement shall be enforced to the fullest extent permissible under the laws and public policies applied in any jurisdiction where enforcement is sought.

#### **5. Relief for Breaches of Confidentiality, Non-Solicitation and Non-competition**

Individual further acknowledges that an actual or threatened violation of the covenants contained in this Agreement will cause Franchisee and Company immediate and irreparable harm, damage and injury that cannot be fully compensated for by an award of damages or other remedies at law. Accordingly, Franchisee and Company shall be entitled, as a matter of right, to an injunction from any court of competent jurisdiction restraining any further violation by Individual of this Agreement without any requirement to show any actual damage or to post any bond or other security. Such right to an injunction shall be cumulative and in addition to, and not in limitation of, any other rights and remedies that Franchisee and Company may have at law or in equity.

#### **6. Miscellaneous**

a) This Agreement constitutes the entire Agreement between the parties with respect to the subject matter hereof. This Agreement supersedes any prior agreements, negotiations and discussions

between Individual and Franchisee. This Agreement cannot be altered or amended except by an agreement in writing signed by the duly authorized representatives of the parties.

b) Except to the extent this Agreement or any particular dispute is governed by the U.S. Trademark Act of 1946 or other federal law, this Agreement shall be governed by and construed in accordance with the laws of the State of California (without reference to its conflict of laws principles). The Federal Arbitration Act shall govern all matters subject to arbitration. References to any law refer also to any successor laws and to any published regulations for such law as in effect at the relevant time. References to a governmental agency also refer to any regulatory body that succeeds the function of such agency.

c) Any action brought by either party, shall only be brought in the appropriate state or federal court located in or serving Los Angeles, California. The parties waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision. Company may bring claims for injunctive relief where Franchisee is located. This exclusive choice of jurisdiction and venue provision shall not restrict the ability of the parties to confirm or enforce judgments or arbitration awards in any appropriate jurisdiction.

d) Individual agrees if any legal proceedings are brought for the enforcement of this Agreement, in addition to any other relief to which the successful or prevailing party may be entitled, the successful or prevailing party shall be entitled to recover attorneys' fees, investigative fees, administrative fees billed by such party's attorneys, court costs and all expenses, including, without limitation, all fees, taxes, costs and expenses incident to arbitration, appellate, and post-judgment proceedings incurred by the successful or prevailing party in that action or proceeding.

e) This Agreement shall be effective as of the date this Agreement is executed and shall be binding upon the successors and assigns of Individual and shall inure to the benefit of Franchisee, its subsidiaries, successors and assigns. Company is an intended third-party beneficiary of this Agreement with the independent right to enforce the confidentiality and non-competition provisions contained herein.

f) The failure of either party to insist upon performance in any one (1) or more instances upon performance of any terms and conditions of this Agreement shall not be construed a waiver of future performance of any such term, covenant or condition of this Agreement and the obligations of either party with respect thereto shall continue in full force and effect.

g) The paragraph headings in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

h) In the event that any part of this Agreement shall be held to be unenforceable or invalid, the remaining parts hereof shall nevertheless continue to be valid and enforceable as though the invalid portions were not a part hereof.

i) This Agreement may be modified or amended only by a written instrument duly executed by Individual, Franchisee and Company.

j) The existence of any claim or cause of action Individual might have against Franchisee or Company will not constitute a defense to the enforcement by Franchisee or Company of this Agreement.



k) Except as otherwise expressly provided in this Agreement, no remedy conferred upon Franchisee or Company pursuant to this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given pursuant to this Agreement or now or hereafter existing at law or in equity or by statute or otherwise. No single or partial exercise by any party of any right, power or remedy pursuant to this Agreement shall preclude any other or further exercise thereof.

**INDIVIDUAL CERTIFIES THAT HE OR SHE HAS READ THIS AGREEMENT CAREFULLY AND UNDERSTANDS AND ACCEPTS THE OBLIGATIONS THAT IT IMPOSES WITHOUT RESERVATION. NO PROMISES OR REPRESENTATIONS HAVE BEEN MADE TO SUCH PERSON TO INDUCE THE SIGNING OF THIS AGREEMENT.**

**THE PARTIES ACKNOWLEDGE THAT THE COMPANY IS A THIRD-PARTY BENEFICIARY TO THIS AGREEMENT AND THAT THE COMPANY SHALL BE ENTITLED TO ENFORCE THIS AGREEMENT WITHOUT THE COOPERATION OF THE FRANCHISEE. INDIVIDUAL AND FRANCHISEE AGREE THAT THIS AGREEMENT CANNOT BE MODIFIED OR AMENDED WITHOUT THE WRITTEN CONSENT OF THE COMPANY.**

IN WITNESS WHEREOF, Franchisee has hereunto caused this Agreement to be executed by its duly authorized officer, and Individual has executed this Agreement, all being done in duplicate originals with one (1) original being delivered to each party as of the day and year first above written.

WITNESS:

\_\_\_\_\_

FRANCHISEE:

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

Its: \_\_\_\_\_

INDIVIDUAL:

Signature: \_\_\_\_\_

Name Printed: \_\_\_\_\_

## **EXHIBIT 3 TO THE FRANCHISE AGREEMENT**

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### **UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATIONS AGREEMENT**

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THIS UNLIMITED GUARANTY AND ASSUMPTION OF OBLIGATIONS AGREEMENT in connection with that certain Franchise Agreement of even date herewith (which Franchise Agreement, as may have been modified, amended and/or supplemented in writing, is hereunder called the Franchise Agreement by and between DRNK Coffee + Tea Franchising, LLC as "Franchisor" and \_\_\_\_\_ as "Franchisee").

For valuable consideration received, and as an inducement to Franchisor to enter into the Franchise Agreement, the undersigned ("Guarantor") hereby unconditionally guarantees to Franchisor: (a) the full and timely performance by Franchisee of the Franchise Agreement and all terms, conditions and covenants thereof, and (b) the payment by Franchisee of royalties and all other sums payable by Franchisee under the Franchise Agreement.

Guarantor agrees that (1) the obligations shall be enforceable against Guarantor without the necessity for any suit or proceedings whatsoever against Franchisee, and without the necessity of any notice of nonpayment, nonperformance or nonobservance or any notice of acceptance of this Agreement or any other notice or demand to which Guarantor might otherwise be entitled, all of which Guarantor hereby expressly waives; (2) immediately upon each and every breach or default of the Franchise Agreement by Franchisee, whether before or during the term of the Franchise Agreement or thereafter (e.g., during any renewal term), without any notice to or demand upon Guarantor. Guarantor will (i) pay to Franchisor the sum or sums in arrears, (ii) pay to Franchisor all damages, including but not limited to any expenses, costs and fees incurred by Franchisor, that may be occasioned by Franchisee's nonperformance, and (iii) comply with or perform all terms and conditions of the Franchise Agreement; (3) no extension, forbearance or leniency extended by Franchisor to Franchisee shall wholly or partially discharge Guarantor hereunder, notwithstanding that Guarantor had no notice of any breach or default of the Franchise Agreement or of any such leniency, forbearance or extension; (4) Franchisor and Franchisee, without notice to or consent by Guarantor, may at any time(s) enter into modifications, renewals, extensions, amendments and/or other agreements respecting the Franchise Agreement, and Guarantor shall not be wholly or partially released thereby, it being intended that Guarantor shall continue as guarantor with respect to the Franchise Agreement as so modified, renewed, extended, amended or otherwise affected and notwithstanding any transfer or assignment of the Franchise Agreement.

The obligations of Guarantor herein shall be co-extensive with those of Franchisee under the Franchise Agreement and shall remain in effect as long as Franchisee's obligations under the Franchise Agreement are in effect. This Agreement is absolute and unconditioned and shall continue without being affected by any impairment, release or limitation of the liability of Franchisee or its estate in bankruptcy resulting from the operation of any present or future provision of the Bankruptcy Code of the United States or from the decision of any court interpreting the same. Guarantor further agrees to be bound by each and every obligation of Franchisee under the Franchise Agreement, with the same force and effect as if Guarantor were designed in and had executed the Franchise Agreement as Franchisee thereunder.

This Agreement is a primary guaranty of payment and performance and shall not be subject to any counterclaim, set-off, deduction or defense. No failure or delay on the part of Franchisor in exercising any right or remedy under the Franchise Agreement and/or this Agreement shall operate as a waiver thereof nor shall a single or partial exercise of any right or remedy preclude any other or further exercise thereof, and all rights and remedies of Franchisor hereunder and under the Franchise

Agreement shall be cumulative. Until all Franchisee's obligations under the Franchise Agreement are fully performed, Guarantor waives any rights that it may have against Franchisee by reason of Guarantor's compliance with this Agreement and subordinates any liability or indebtedness of Franchisee held by Guarantor to the obligations of Franchisee to Franchisor under the Franchise Agreement.

If Guarantor consists of more than one person and/or entity, (a) this Agreement shall be binding on all of them jointly and severally, and (b) notice to or from any of them will constitute notice to or from each of them.

Any notice or other communication to Franchisor may be addressed to DRNK Coffee + Tea Franchising, LLC, 350 S Grand Ave., Suite 3070, Los Angeles, CA 90071, Attention: Legal Department, or such other address as may be designated by Franchisor by registered or certified mail, return receipt requested, and the time of rendition of such notice or other communication shall be when it is deposited in an official United States Mail receptacle, postage prepaid.

This Agreement, which is to be governed by and construed in accordance with the laws of the State of California, shall also bind Guarantor's legal or personal representatives, heirs, successors and assigns (as the case may be) and inure to the benefit of Franchisor's successors and assigns and any other person or entity at any time having the rights of Franchisor under the Franchise Agreement.

Guarantor will forthwith pay to Franchisor all attorney's fees and disbursements incurred by Franchisor in connection with any breach or default by Franchisee under the Franchise Agreement and/or the enforcement of this Agreement, in each instance whether or not suit is brought (and if suit is brought, through appeals and collection efforts).

Any sums not paid to Franchisor when due hereunder will bear interest at the rate of 18% per annum, from the due date until full payment is received by Franchisor.

As a further inducement to Franchisor to make and enter into the Franchise Agreement and in consideration thereof, Guarantor agrees that in any action or proceeding brought on, under or by virtue of this Agreement, Guarantor shall and does hereby waive trial by jury and the benefit of any statute of limitations defense, and Guarantor agrees that the applicable courts of California may have jurisdiction over Guarantor upon appropriate service on Guarantor anywhere in the United States in a manner in accordance with the laws of California. Without limiting the foregoing, Guarantor hereby irrevocably appoints Franchisee as Guarantor's agent for service of process related to this Agreement.

This Agreement contains the entire agreement between the parties with respect to the matters covered hereby, and Guarantor acknowledges that no agent, representative, salesman or officer of Franchisor has authority to make or has made any statement, agreement or representation, either oral or written, in connection herewith, modifying, adding to or changing the terms and conditions herein set forth. No customs or dealings between the parties shall be permitted to contradict or modify the terms hereof. This Agreement shall not be construed more strictly against one party merely by reason of such party's preparation hereof. If any provision of this Agreement shall be held to be invalid or unenforceable, to the maximum extent possible the remaining provisions hereof shall in no way be affected or impaired and such remaining provisions shall continue in full force and effect. Neither this Agreement nor any of its provisions can be waived, modified or terminated orally, but only by a written instrument duly executed by or on behalf of the party against whom enforcement of any waiver, modification or termination is sought.

Guarantor fully and expressly intends that the foregoing requirements as to a writing be strictly adhered to and strictly interpreted and enforced by any court that may be asked to consider the matter.

This Agreement shall be effective for the full Franchise Agreement term, including any extensions or renewals thereof.

GUARANTOR:

\_\_\_\_\_  
Name

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Social Security #

\_\_\_\_\_  
Driver's License #

Notice Address:

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

**ACKNOWLEDGMENT**

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss

On this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ before me personally came \_\_\_\_\_, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the foregoing Unlimited Guaranty and Assumption of Obligations Agreement, and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed said Unlimited Guaranty and Assumption of Obligations Agreement.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

\_\_\_\_\_  
Notary Public  
My Commission expires:

(NOTARIAL SEAL)

## EXHIBIT 4 TO THE FRANCHISE AGREEMENT

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### HOLDERS OF LEGAL OR BENEFICIAL INTEREST IN FRANCHISEE; OFFICERS; DIRECTORS

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#### Holders of Legal or Beneficial Interest:

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

Position/Title: \_\_\_\_\_

Home Address: \_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

E-mail address: \_\_\_\_\_

Percentage of ownership: \_\_\_\_\_%

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

Position/Title: \_\_\_\_\_

Home Address: \_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

E-mail address: \_\_\_\_\_

Percentage of ownership: \_\_\_\_\_%

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

Position/Title: \_\_\_\_\_

Home Address: \_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

E-mail address: \_\_\_\_\_

Percentage of ownership: \_\_\_\_\_%

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

Position/Title: \_\_\_\_\_

Home Address: \_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

E-mail address: \_\_\_\_\_

Percentage of ownership: \_\_\_\_\_%

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

Position/Title: \_\_\_\_\_

Home Address: \_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

E-mail address: \_\_\_\_\_

Percentage of ownership: \_\_\_\_\_%

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

Position/Title: \_\_\_\_\_

Home Address: \_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

E-mail address: \_\_\_\_\_

Percentage of ownership: \_\_\_\_\_%

**Officers and Directors:**

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

Position/Title: \_\_\_\_\_

Home Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

E-mail address: \_\_\_\_\_

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

Position/Title: \_\_\_\_\_

Home Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

E-mail address: \_\_\_\_\_

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

Position/Title: \_\_\_\_\_

Home Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

E-mail address: \_\_\_\_\_

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

Position/Title: \_\_\_\_\_

Home Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

E-mail address: \_\_\_\_\_

## EXHIBIT 5 TO THE FRANCHISE AGREEMENT

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### INDIANA ADDENDUM

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This Addendum to the Franchise Agreement is agreed to this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, is by and between DRNK coffee + tea Franchising, LLC and \_\_\_\_\_ hereby amends the Franchise Agreement by the addition of the following language, which shall be considered an integral part of the Franchise Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Agreement, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Agreement in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Agreement.

#### **INDIANA LAW MODIFICATIONS**

The Indiana Securities Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with Indiana law, including the Indiana Franchises Act, Ind. Code Ann. §§ 1-51 (1994) and the Indiana Deceptive Franchise Practices Act, Ind. Code Ann. § 23-27 (1985). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

1. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning non-renewal and termination of the Franchise Agreement. To the extent the Franchise Agreement contains a provision that is inconsistent with the Act, the Act will control.
2. If the Franchisee is required in the Franchise Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule of order under the Act, such release shall exclude claims arising under the Indiana Deceptive Franchise Practices Act and the Indiana Franchises Act, and such acknowledgements shall be void with respect to claims under the Act.
3. If the Franchise Agreement contains covenants not to compete upon expiration or termination of the Franchise Agreement that are inconsistent with the Indiana Deceptive Franchise Practices Act, the requirements of the Act will control.
4. The Indiana Deceptive Franchise Practices Act provides that substantial modification of the Agreement by Franchisor requires written consent of the Franchisee. If the Agreement contains provisions that are inconsistent with this requirement, the Act will control.
5. Section 23.1 is amended to provide that Franchisee will not be required to indemnify Franchisor for any liability imposed upon Franchisor as a result of Franchisee's reliance upon or use of procedures or products which were required by Franchisor, if such procedures or products were utilized by Franchisee in the manner required by Franchisor.
6. Section 23.1 is amended to provide that, in the event of a conflict of law, the Indiana Franchise Disclosure Law, IC 23-2-2.5, and the Indiana Deceptive Franchise Practices Law



will prevail.

7. Section 23.2 is amended to provide that Franchisee may commence litigation in Indiana for any cause of action under Indiana law.
8. Section 23.6 is amended to provide that arbitration between Franchisor and Franchisee, shall be conducted at a mutually agreed upon location.

Except as set forth in this Addendum, the terms and provisions of the Franchise Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum and understands and consents to be bound by all of its terms.

DRNK Coffee + Tea Franchising, LLC:

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

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

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

Title: \_\_\_\_\_

Title: \_\_\_\_\_

## **EXHIBIT 6 TO THE FRANCHISE AGREEMENT**

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Addendum to the Franchise Agreement for SBA Loans

(Attached)



## ADDENDUM TO FRANCHISE<sup>1</sup> AGREEMENT

**THIS ADDENDUM** (“Addendum”) is made and entered into on \_\_\_\_\_, 20\_\_\_\_, by and between \_\_\_\_\_ (“Franchisor”), located at \_\_\_\_\_, and \_\_\_\_\_ (“Franchisee”), located at \_\_\_\_\_.

Franchisor and Franchisee entered into a Franchise Agreement on \_\_\_\_\_, 20\_\_\_\_, (such Agreement, together with any amendments, the “Franchise Agreement”). Franchisee is applying for financing(s) from a lender in which funding is provided with the assistance of the U. S. Small Business Administration (“SBA”). SBA requires the execution of this Addendum as a condition for obtaining SBA-assisted financing.

In consideration of the mutual promises below and for good and valuable consideration, the receipt and sufficiency of which the parties acknowledge, the parties agree that notwithstanding any other terms in the Franchise Agreement or any other document Franchisor requires Franchisee to sign:

### CHANGE OF OWNERSHIP

- If Franchisee is proposing to transfer a partial interest in Franchisee and Franchisor has an option to purchase or a right of first refusal with respect to that partial interest, Franchisor may exercise such option or right only if the proposed transferee is not a current owner or family member of a current owner of Franchisee. If the Franchisor’s consent is required for any transfer (full or partial), Franchisor will not unreasonably withhold such consent. In the event of an approved transfer of the franchise interest or any portion thereof, the transferor will not be liable for the actions of the transferee franchisee.

### FORCED SALE OF ASSETS

- If Franchisor has the option to purchase the business personal assets upon default or termination of the Franchise Agreement and the parties are unable to agree on the value of the assets, the value will be determined by an appraiser chosen by both parties. If the Franchisee owns the real estate where the franchise location is operating, Franchisee will not be required to sell the real estate upon default or termination, but Franchisee may be required to lease the real estate for the remainder of the franchise term (excluding additional

<sup>1</sup> While relationships established under license, jobber, dealer and similar agreements are not generally described as “franchise” relationships, if such relationships meet the Federal Trade Commission’s (FTC’s) definition of a franchise (see 16 CFR § 436), they are treated by SBA as franchise relationships for franchise affiliation determinations per 13 CFR § 121.301(f)(5).

renewals) for fair market value.

## COVENANTS

- If the Franchisee owns the real estate where the franchise location is operating, Franchisor has not and will not during the term of the Franchise Agreement record against the real estate any restrictions on the use of the property, including any restrictive covenants, branding covenants or environmental use restrictions. If any such restrictions are currently recorded against the Franchisee's real estate, they must be removed in order for the Franchisee to obtain SBA-assisted financing.

## EMPLOYMENT

- Franchisor will not directly control (hire, fire or schedule) Franchisee's employees. For temporary personnel franchises, the temporary employees will be employed by the Franchisee not the Franchisor.

As to the referenced Franchise Agreement, this Addendum automatically terminates when SBA no longer has any interest in any SBA-assisted financing provided to the Franchisee.

Except as amended by this Addendum, the Franchise Agreement remains in full force and effect according to its terms.

Franchisor and Franchisee acknowledge that submission of false information to SBA, or the withholding of material information from SBA, can result in criminal prosecution under 18 U.S.C. 1001 and other provisions, including liability for treble damages under the False Claims Act, 31 U.S.C. §§ 3729 -3733.

### Authorized Representative of FRANCHISOR:

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

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

### Authorized Representative of FRANCHISEE:

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

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Note to Parties:** This Addendum only addresses "affiliation" between the Franchisor and Franchisee. Additionally, the applicant Franchisee and the franchise system must meet all SBA eligibility requirements

# EXHIBIT D TO THE DISCLOSURE DOCUMENT

## DRNK/QWENCH CONFIDENTIAL OPERATIONS MANUAL

*(See Each Section for Detailed Contents of That Section)*

SECTION A: PREFACE & INTRODUCTION

SECTION B: ESTABLISHING A DRNK COFFEE + TEA® / QWENCH FRANCHISE BUSINESS

SECTION C: DRNK COFFEE + TEA® / QWENCH PERSONNEL

SECTION D: DRNK COFFEE + TEA® / QWENCH ADMINISTRATIVE PROCEDURES

SECTION E: DRNK COFFEE + TEA® / QWENCH DAILY PROCEDURES

SECTION F: DRNK COFFEE + TEA® / QWENCH SELLING AND MARKETING

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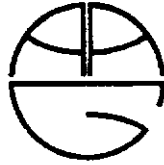
## **EXHIBIT E TO THE DISCLOSURE DOCUMENT**

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### **FINANCIAL STATEMENTS**

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(See Attached)



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**A. ANDREW GIANIODIS**

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**CERTIFIED PUBLIC ACCOUNTANT**

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**DRNK COFFEE + TEA FRANCHISING, LLC**

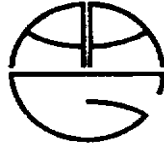
DECEMBER 31, 2018 AND 2017

FINANCIAL STATEMENTS

DRNK COFFEE + TEA FRANCHISING, LLC

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**A. ANDREW GIANIODIS**

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**CERTIFIED PUBLIC ACCOUNTANT**

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April 19, 2019

## **INDEPENDENT AUDITORS' REPORT**

Managers and Officers of  
DRNK Coffee + Tea Franchising, LLC:

### **REPORT ON FINANCIAL STATEMENTS**

I have audited the accompanying balance sheet of DRNK Coffee + Tea Franchising, LLC as of December 31, 2018 and 2017 and the related statements of operations, changes in member's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these statements based on my audits.

### **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

### **AUDITOR'S RESPONSIBILITY**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with generally accepted auditing standards as accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, I express no such opinion.

An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### OPINION

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DRNK Coffee + Tea Franchising, LLC as of December 31, 2018 and 2017 and the results of operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in dark ink, appearing to read "A. Andrew Gianiodis CPA". The signature is fluid and cursive, with the "CPA" part written in a slightly more formal, blocky style.

A. Andrew Gianiodis

Certified Public Accountant



# DRNK Coffee + Tea Franchising, LLC

## Balance Sheet December 31, 2018 and 2017

### ASSETS

	2018	2017
CURRENT ASSETS		
Cash	\$ 296,518	\$ 315,143
Accounts receivable	985,934	543,203
Notes receivable	1,066,993	776,775
Due From Affiliates	410,730	169,225
Deposits	12,691	12,691
TOTAL CURRENT ASSETS	<u>2,772,866</u>	<u>1,817,037</u>
FIXED ASSETS		
Equipment	98,378	93,786
Accumulated Depreciation	(49,020)	(36,765)
	<u>49,358</u>	<u>57,021</u>
TOTAL ASSETS	<u>\$ 2,822,224</u>	<u>\$ 1,874,058</u>

### LIABILITIES & MEMBERS EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 43,810	\$ 23,187
TOTAL CURRENT LIABILITIES	<u>43,810</u>	<u>23,187</u>
TOTAL LIABILITIES	<u>43,810</u>	<u>23,187</u>
MEMBERS' EQUITY		
Capital Contribution	472,237	428,000
Retained Earnings	2,306,177	1,422,871
TOTAL MEMBERS EQUITY	<u>2,778,414</u>	<u>1,850,871</u>
TOTAL LIABILITIES & MEMBERS EQUITY	<u>\$ 2,822,224</u>	<u>\$ 1,874,058</u>

See accompanying notes

# DRNK Coffee + Tea Franchising, LLC

## Statement of Operations Years ending December 31, 2018 and 2017

	2018	2017
Revenues		
Initial franchise fee	\$ 1,679,480	\$ 1,689,950
Royalties	338,619	275,815
Other franchise revenue	164,675	130,356
Total revenue	<u>2,182,774</u>	<u>2,096,121</u>
Expenses		
Advertising and marketing	277,971	58,033
Automobile	5,027	1,558
Bank charges	5,615	2,052
Computer expenses	6,505	1,654
Consulting	141,635	231,532
Franchising events	21,524	104,062
Franchise support	57,791	-
Insurance	35,899	20,611
Miscellaneous	4,087	3,965
Office	3,802	2,807
Payroll expenses	95,457	-
Permits and licensing	3,168	1,311
Printing	21,718	59,155
Professional fees	58,687	109,994
Rent	189,720	166,923
Travel and meals	37,217	37,150
Total expenses	<u>965,823</u>	<u>800,807</u>
Operating Income	1,216,951	1,295,314
Interest expense	-	-
State Franchise taxes	(2,500)	(2,500)
Depreciation	<u>(12,255)</u>	<u>(12,255)</u>
Net Income	<u>\$ 1,202,196</u>	<u>\$ 1,280,559</u>

See accompanying notes

# DRNK Coffee + Tea Franchising, LLC

## Statement of Changes in Members' Equity Years ending December 31, 2018 and 2017

	Capital Contributions	Retained Earnings	Total Members Equity
Equity January 1, 2017	\$ 428,000	\$ 173,858	\$ 601,858
Draws	-	(31,546)	(31,546)
Net Income	<u>-</u>	<u>1,280,559</u>	<u>1,280,559</u>
Equity December 31, 2017	<u>\$ 428,000</u>	<u>\$ 1,422,871</u>	<u>\$ 1,850,871</u>
Equity January 1, 2018	\$ 428,000	\$ 1,422,871	\$ 1,850,871
Capital Infusion	44,237	-	44,237
Draws	-	(318,890)	(318,890)
Net Income	<u>-</u>	<u>1,202,196</u>	<u>1,202,196</u>
Equity December 31, 2018	<u>\$ 472,237</u>	<u>\$ 2,306,177</u>	<u>\$ 2,778,414</u>

*See accompanying notes*

# DRNK Coffee + Tea Franchising, LLC

## Statement of Cash Flows Years ending December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net Income	<u>\$ 1,202,196</u>	<u>\$ 1,280,559</u>
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation & amortization	12,255	12,255
Changes in assets and liabilities		
Current assets	(974,454)	(1,326,572)
Current liabilities	<u>20,623</u>	<u>11,513</u>
Net cash provided by operating activities	<u>260,620</u>	<u>(22,245)</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(4,592)</u>	<u>-</u>
Net cash provided by investing activities	<u>(4,592)</u>	<u>-</u>
Cash flows from financing activities:		
Capital infusion	44,237	
Draws	<u>(318,890)</u>	<u>(31,546)</u>
Net cash provided by investing activities	<u>(274,653)</u>	<u>(31,546)</u>
Net change in cash	(18,625)	(53,791)
Cash - beginning of year	<u>315,143</u>	<u>368,934</u>
Cash - end of year	<u><u>\$ 296,518</u></u>	<u><u>\$ 315,143</u></u>
Supplemental Disclosures		
Interest Paid	-	-
Taxes Paid	2,500	2,500

*See accompanying notes*

DRNK COFFEE + TEA FRANCHISING, LLC  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION AND NATURE OF BUSINESS**

The Company was organized as a Limited Liability Company under the laws of the State of California for the purpose of offering franchise opportunities to entrepreneurs who want to own and operate their own DRNK coffee + tea operation and/or Qwench Juice Bar operation.

**BASIS OF PRESENTATION**

The financial statements are presented on the accrual basis of accounting.

**REVENUE RECOGNITION**

Initial franchise fees will be recorded as income when the franchise agreement is executed by the prospective franchisee, as agreed upon in the franchise agreement.

Monthly royalty fees will be recognized when reported by the franchisee.

**COMPANY INCOME TAXES**

The Company, with the consent of its members, has elected to be a limited liability company. In lieu of income taxes at the business level, the members of a limited liability company is taxed based on its proportionate share of the Company's taxable income. Therefore, no provision or liability for income taxes has been included in these financial statements.

**PROPERTY AND EQUIPMENT**

Property and Equipment are recorded at cost. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance, repairs, and renewals are charged to expense as incurred. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the appropriate accounts. Any resultant gain or loss is credited or charged to the income statement.

Depreciation and amortization of property and equipment is computed on the straight-line and accelerated cost recovery methods utilizing various rates based on the estimated useful life of the respective assets, which range as follows:

Machinery and equipment	5-7 years
Office equipment and furnishings	5-7 years

DRNK COFFEE + TEA FRANCHISING, LLC  
NOTES TO FINANCIAL STATEMENTS

**NOTE 2      DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company estimates that the fair value of all financial instruments at December 31, 2018 as defined in FASB 107, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

**NOTE 3      NOTES RECEIVABLE**

As at December 31, 2018, the Company has various non-interest bearing notes outstanding.

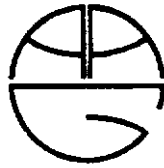
**NOTE 4      FRANCHISE AGREEMENT**

The terms of the Company's franchise agreement will be as follows:

- A. The Company will grant the right to use the Company name, trademark and system in the franchisee's franchise development business.
- B. The franchisee is obligated to pay a non-refundable initial franchise fee.
- C. The franchisee is obligated to pay a monthly royalty fee. Certain other fees are also outlined in the agreement.

**NOTE 5      SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 19, 2019, the date that the financial statements were available to be issued.



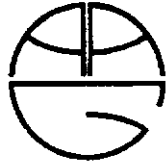
**A. ANDREW GIANIODIS**  
**CERTIFIED PUBLIC ACCOUNTANT**

## CONSENT OF THE INDEPENDENT AUDITOR

Ladies and Gentlemen:

A. Andrew Gianiodis, CPA consents to the use in the Franchise Disclosure Document issued by DRNK Coffee + Tea Franchising, LLC ("Franchisor") on April 22, 2019, as it may be amended, of our report dated April 19, 2019, relating to the financial statements of the Franchisor for the years ending December 31, 2018 and 2017.

A. Andrew Gianiodis, CPA



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**A. ANDREW GIANIODIS**

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**CERTIFIED PUBLIC ACCOUNTANT**

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**DRNK COFFEE + TEA FRANCHISING, LLC**

DECEMBER 31, 2017 AND 2016

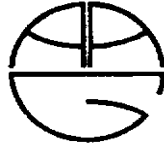
FINANCIAL STATEMENTS



DRNK COFFEE + TEA FRANCHISING, LLC

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**A. ANDREW GIANIODIS**

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**CERTIFIED PUBLIC ACCOUNTANT**

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April 12, 2018

## **INDEPENDENT AUDITORS' REPORT**

Managers and Officers of  
DRNK Coffee + Tea Franchising, LLC:

### **REPORT ON FINANCIAL STATEMENTS**

I have audited the accompanying balance sheet of DRNK Coffee + Tea Franchising, LLC as of December 31, 2017 and 2016 and the related statements of operations, changes in member's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these statements based on my audits.

### **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

### **AUDITOR'S RESPONSIBILITY**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with generally accepted auditing standards as accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, I express no such opinion.

An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### OPINION

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DRNK Coffee + Tea Franchising, LLC as of December 31, 2017 and 2016 and the results of operations and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in dark ink, appearing to read "A. Andrew Gianiodis CPA". The signature is fluid and cursive, with the "CPA" part written in a slightly more formal, blocky style.

A. Andrew Gianiodis

Certified Public Accountant

# DRNK Coffee + Tea Franchising, LLC

## Balance Sheet December 31, 2017 and 2016

### ASSETS

	2017	2016
CURRENT ASSETS		
Cash	\$ 315,143	\$ 368,934
Accounts receivable	543,203	162,631
Due From Affiliates	169,225	-
Deposits	12,691	12,691
TOTAL CURRENT ASSETS	<u>1,040,262</u>	<u>544,256</u>
FIXED ASSETS		
Equipment	93,786	93,786
Accumulated Depreciation	(36,765)	(24,510)
	<u>57,021</u>	<u>69,276</u>
OTHER ASSETS		
Notes receivable	776,775	-
	<u>776,775</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,874,058</u>	<u>\$ 613,532</u>

### LIABILITIES & MEMBERS EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 23,187	\$ 11,674
TOTAL CURRENT LIABILITIES	<u>23,187</u>	<u>11,674</u>
TOTAL LIABILITIES	<u>23,187</u>	<u>11,674</u>
MEMBERS' EQUITY		
Capital Contribution	428,000	428,000
Retained Earnings	1,422,871	173,858
TOTAL MEMBERS EQUITY	<u>1,850,871</u>	<u>601,858</u>
TOTAL LIABILITIES & MEMBERS EQUITY	<u>\$ 1,874,058</u>	<u>\$ 613,532</u>

See accompanying notes

# DRNK Coffee + Tea Franchising, LLC

## Statement of Operations Years ending December 31, 2017 and 2016

	2017	2016
Revenues		
Initial franchise fee	\$ 1,689,950	\$ 295,000
Royalties	275,815	291,070
Other franchise revenue	130,356	147,198
Total revenue	<u>2,096,121</u>	<u>733,268</u>
Expenses		
Advertising and marketing	58,033	36,354
Automobile	1,558	3,360
Bank charges	2,052	-
Computer expenses	1,654	4,264
Consulting	231,532	169,058
Franchising events	104,062	145,679
Insurance	20,611	6,061
Miscellaneous	3,965	3,774
Office	2,807	4,108
Permits and licensing	1,311	7,312
Printing	59,155	7,593
Professional fees	109,994	21,085
Rent	166,923	81,049
Travel and meals	37,150	37,597
Uniforms	-	5,470
Total expenses	<u>800,807</u>	<u>532,764</u>
Operating Income	1,295,314	200,504
Interest expense	-	-
Income taxes	(2,500)	(1,700)
Depreciation	<u>(12,255)</u>	<u>(12,255)</u>
Net Income	<u>\$ 1,280,559</u>	<u>\$ 186,549</u>

*See accompanying notes*

# DRNK Coffee + Tea Franchising, LLC

## Statement of Changes in Members' Equity Years ending December 31, 2017 and 2016

	Capital Contributions	Retained Earnings	Total Members Equity
Equity January 1, 2016	\$ 428,000	\$ (12,691)	\$ 415,309
Capital Contributions in 2016	<u>-</u>	<u>-</u>	<u>-</u>
Net Income	<u>-</u>	<u>186,549</u>	<u>186,549</u>
Equity December 31, 2016	<u><u>\$ 428,000</u></u>	<u><u>\$ 173,858</u></u>	<u><u>\$ 601,858</u></u>
Equity January 1, 2017	\$ 428,000	\$ 173,858	\$ 601,858
Draws	<u>-</u>	<u>(31,546)</u>	<u>(31,546)</u>
Net Income	<u>-</u>	<u>1,280,559</u>	<u>1,280,559</u>
Equity December 31, 2017	<u><u>\$ 428,000</u></u>	<u><u>\$ 1,422,871</u></u>	<u><u>\$ 1,850,871</u></u>

*See accompanying notes*

# DRNK Coffee + Tea Franchising, LLC

## Statement of Cash Flows Years ending December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net Income	<u>\$ 1,280,559</u>	<u>\$ 186,549</u>
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation & amortization	12,255	12,255
Changes in assets and liabilities		
Current assets	(549,797)	(157,481)
Current liabilities	<u>11,513</u>	<u>(18,176)</u>
Net cash provided by operating activities	<u>754,530</u>	<u>23,147</u>
Cash flows from investing activities:		
Notes receivable	(776,775)	-
Purchase of fixed assets	<u>-</u>	<u>(9,230)</u>
Net cash provided by investing activities	<u>(776,775)</u>	<u>(9,230)</u>
Cash flows from financing activities:		
Draws	<u>(31,546)</u>	<u>-</u>
Net cash provided by financing activities	<u>(31,546)</u>	<u>-</u>
Net increase in cash	(53,791)	13,917
Cash - beginning of year	<u>368,934</u>	<u>355,017</u>
Cash - end of year	<u><u>\$ 315,143</u></u>	<u><u>\$ 368,934</u></u>
Supplemental Disclosures		
Interest Paid	-	-
Taxes Paid	2,500	1,700

*See accompanying notes*

DRNK COFFEE + TEA FRANCHISING, LLC  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION AND NATURE OF BUSINESS**

The Company was organized as a Limited Liability Company under the laws of the State of California for the purpose of offering franchise opportunities to entrepreneurs who want to own and operate their own DRNK coffee + tea operation and/or Qwench Juice Bar operation.

**BASIS OF PRESENTATION**

The financial statements are presented on the accrual basis of accounting.

**REVENUE RECOGNITION**

Initial franchise fees will be recorded as income when the franchise agreement is executed by the prospective franchisee, as agreed upon in the franchise agreement.

Monthly royalty fees will be recognized when reported by the franchisee.

**COMPANY INCOME TAXES**

The Company, with the consent of its members, has elected to be a limited liability company. In lieu of income taxes at the business level, the members of a limited liability company is taxed based on its proportionate share of the Company's taxable income. Therefore, no provision or liability for income taxes has been included in these financial statements.

**NOTE 2      DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company estimates that the fair value of all financial instruments at December 31, 2017 as defined in FASB 107, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.



DRNK COFFEE + TEA FRANCHISING, LLC  
NOTES TO FINANCIAL STATEMENTS

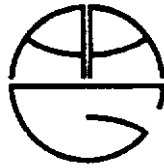
**NOTE 3      FRANCHISE AGREEMENT**

The terms of the Company's franchise agreement will be as follows:

- A. The Company will grant the right to use the Company name, trademark and system in the franchisee's franchise development business.
- B. The franchisee is obligated to pay a non-refundable initial franchise fee.
- C. The franchisee is obligated to pay a monthly royalty fee. Certain other fees are also outlined in the agreement.

**NOTE 4      SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 12, 2018, the date that the financial statements were available to be issued.



**A. ANDREW GIANIODIS**  
**CERTIFIED PUBLIC ACCOUNTANT**

## CONSENT OF THE INDEPENDENT AUDITOR

Ladies and Gentlemen:

A. Andrew Gianiodis, CPA consents to the use in the Franchise Disclosure Document issued by DRNK Coffee + Tea Franchising, LLC ("Franchisor") on April 18, 2018, as it may be amended, of our report dated April 12, 2018, relating to the financial statements of the Franchisor for the years ending December 31, 2017 and 2016.

A. Andrew Gianiodis, CPA



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**A. ANDREW GIANIODIS**

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**CERTIFIED PUBLIC ACCOUNTANT**

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**DRNK COFFEE + TEA FRANCHISING, LLC**

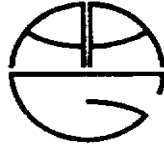
DECEMBER 31, 2016 AND 2015

FINANCIAL STATEMENTS

# DRNK COFFEE+TEA FRANCHISING, LLC

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**A. ANDREW GIANIODIS**

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**CERTIFIED PUBLIC ACCOUNTANT**

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April 14, 2017

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors and Stockholders of  
DRNK coffee+tea Franchising, LLC:

### **REPORT ON FINANCIAL STATEMENTS**

I have audited the accompanying balance sheet of DRNK coffee+tea Franchising, LLC as of December 31, 2016 and the related statements of operations, changes in member's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these statements based on my audits.

### **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

### **AUDITOR'S RESPONSIBILITY**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with generally accepted auditing standards as accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, I express no such opinion.

An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### OPINION

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DRNK coffee+tea Franchising, LLC as of December 31, 2016 and the results of operations and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in dark ink, appearing to read "A. Andrew Gianiodis CPA". The signature is fluid and cursive, with the "CPA" part written in a slightly more formal, blocky style.

A. Andrew Gianiodis

Certified Public Accountant

# DRNK Coffee + Tea Franchising, LLC

## Balance Sheet December 31, 2016 and 2015

### ASSETS

	2016	2015
CURRENT ASSETS		
Cash	\$ 368,934	\$ 355,017
Accounts receivable	162,631	4,880
Deposits	12,691	12,961
TOTAL CURRENT ASSETS	<u>544,256</u>	<u>372,858</u>
FIXED ASSETS		
Equipment	93,786	84,556
Accumulated Depreciation	(24,510)	(12,255)
	<u>69,276</u>	<u>72,301</u>
OTHER ASSETS		
	-	-
	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 613,532</u>	<u>\$ 445,159</u>

### LIABILITIES & MEMBERS EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 11,674	\$ 29,850
TOTAL CURRENT LIABILITIES	<u>11,674</u>	<u>29,850</u>
TOTAL LIABILITIES	<u>11,674</u>	<u>29,850</u>
MEMBERS' EQUITY		
Capital Contribution	428,000	428,000
Retained Earnings	173,858	(12,691)
TOTAL MEMBERS EQUITY	<u>601,858</u>	<u>415,309</u>
TOTAL LIABILITIES & MEMBERS EQUITY	<u>\$ 613,532</u>	<u>\$ 445,159</u>

# DRNK Coffee + Tea Franchising, LLC

## Statement of Operations Years ending December 31, 2016 and 2015

	2016	2015
Revenues		
Initial franchise fee	\$ 295,000	\$ 275,000
Royalties	291,070	5,653
Other franchise revenue	147,198	-
Total revenue	<u>733,268</u>	<u>280,653</u>
Expenses		
Advertising and marketing	36,354	23,192
Automobile	3,360	3,371
Computer expenses	4,264	-
Consulting	169,058	145,919
Franchising events	145,679	-
Insurance	6,061	4,128
Miscellaneous	3,774	5,522
Office	4,108	3,198
Permits and licensing	7,312	675
Printing	7,593	1,707
Professional fees	21,085	39,467
Rent	81,049	39,620
Travel and meals	37,597	1,546
Uniforms	5,470	-
Total expenses	<u>532,764</u>	<u>268,345</u>
Operating Income	200,504	12,308
Interest expense	-	(12,744)
Income taxes	(1,700)	-
Depreciation	<u>(12,255)</u>	<u>(12,255)</u>
Net Income/Loss	<u>\$ 186,549</u>	<u>\$ (12,691)</u>



# DRNK Coffee + Tea Franchising, LLC

## Statement of Changes in Members' Equity Years ending December 31, 2016 and 2015

	Capital Contributions	Retained Earnings	Total Members Equity
Equity January 1, 2015	\$ 150,000	\$ -	\$ 150,000
Capital Contributions in 2015	278,000	-	278,000
Net Loss	<u>-</u>	<u>(12,691)</u>	<u>(12,691)</u>
Equity December 31, 2015	<u><u>\$ 428,000</u></u>	<u><u>\$ (12,691)</u></u>	<u><u>\$ 415,309</u></u>
Equity January 1, 2016	\$ 428,000	\$ (12,691)	\$ 415,309
Capital Contributions in 2016	<u>-</u>	<u>-</u>	<u>-</u>
Net Income	<u>-</u>	<u>186,549</u>	<u>186,549</u>
Equity December 31, 2016	<u><u>\$ 428,000</u></u>	<u><u>\$ 173,858</u></u>	<u><u>\$ 601,858</u></u>

# DRNK Coffee + Tea Franchising, LLC

## Statement of Cash Flows Years ending December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Net Income/Loss	<u>\$ 186,549</u>	<u>\$ (12,691)</u>
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation & amortization	12,255	12,255
Changes in assets and liabilities		
Current assets	(157,481)	(17,841)
Current liabilities	<u>(18,176)</u>	<u>29,850</u>
Net cash provided by operating activities	<u>23,147</u>	<u>11,573</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(9,230)</u>	<u>(84,556)</u>
Net cash provided by investing activities	<u>(9,230)</u>	<u>(84,556)</u>
Cash flows from financing activities:		
Capital infusion	<u>-</u>	<u>278,000</u>
Net cash provided by investing activities	<u>-</u>	<u>278,000</u>
Net increase in cash	13,917	205,017
Cash - beginning of year	<u>355,017</u>	<u>150,000</u>
Cash - end of year	<u><u>\$ 368,934</u></u>	<u><u>\$ 355,017</u></u>
Supplemental Disclosures		
Interest Paid	-	12,744
Income Taxes Paid	1,700	-

DRNK COFFEE+TEA FRANCHISING, LLC  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION AND NATURE OF BUSINESS**

The Company was organized as a Limited Liability Company under the laws of the State of California for the purpose of offering franchise opportunities to entrepreneurs who want to own and operate their own DRNK coffee+tea or QWENCH juice bar operation.

**BASIS OF PRESENTATION**

The financial statements are presented on the accrual basis of accounting.

**REVENUE RECOGNITION**

Initial franchise fees will be recorded as income when the company provides substantially all the initial services agreed upon in the franchise agreement or when the franchise has commenced operations, whichever comes first. If the fee is received over a period of time and the Company has no reasonable basis for estimating the collectability of the fee, the Company will use the installment method of recognition of the initial fee as revenue.

Monthly royalty fees will be recognized when reported by the franchisee.

**COMPANY INCOME TAXES**

The Company, with the consent of its stockholders, has elected to be a limited liability company. In lieu of income taxes at the business level, the members of a limited liability company is taxed based on its proportionate share of the Company's taxable income. Therefore, no provision or liability for income taxes has been included in these financial statements.

**NOTE 2      DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company estimates that the fair value of all financial instruments at December 31, 2016 as defined in FASB 107, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

DRNK COFFEE+TEA, LLC  
NOTES TO FINANCIAL STATEMENTS

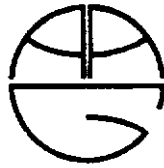
**NOTE 3      FRANCHISE AGREEMENT**

The terms of the Company's franchise agreement will be as follows:

- A. The Company will grant the right to use the Company name, trademark and system in the franchisee's franchise development business.
- B. The franchisee is obligated to pay a non-refundable initial franchise fee.
- C. The franchisee is obligated to pay a monthly royalty fee. Certain other fees are also outlined in the agreement.

**NOTE 4      SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 14, 2017, the date that the financial statements were available to be issued.



**A. ANDREW GIANIODIS**  
**CERTIFIED PUBLIC ACCOUNTANT**

## CONSENT OF THE INDEPENDENT AUDITOR

April 14, 2017

Ladies and Gentlemen:

A. Andrew Gianiodis, CPA consents to the use in the Franchise Disclosure Document issued by DRNK coffee+tea Franchising, LLC ("Franchisor") on April 14, 2017, as it may be amended, of our report dated April 14, 2017, relating to the financial statements of the Franchisor for the year ending December 31, 2016.

A. Andrew Gianiodis, CPA

## EXHIBIT F TO THE DISCLOSURE DOCUMENT

### LIST OF CURRENT FRANCHISES

Below is a listing of the names of all franchisees along with their respective addresses and telephone numbers.

Operating Outlets (as of Issuance Date):	
Store 7001 – Opened 10/2013 DRNK/QWENCH - Hollywood 110 Sunshine Smoothies, Inc. Attn: Fariba Atighehchi 6848 Sunset Blvd. Hollywood, CA 90028 323-469-8825	Store 7003 – Opened 10/2013 DRNK/QWENCH – City Mall 110 Sunshine Smoothies, Inc. Attn: Fariba Atighehchi 201 N. Los Angeles Street #10D Los Angeles, CA 90012 213-617-0400
Store 7008 – Opened 3/2018 DRNK/QWENCH – The Bloc 110 Sunshine Smoothies, Inc. Attn: Fariba Atighehchi 750 W. 7 <sup>th</sup> Street Los Angeles, CA 90017 Tel: 213-789-4694	Store 7005 – Opened 3/2018 DRNK/QWENCH – Hoover-Adams WAZ Franchise Ventures, LLC Attn: Wafaa Ahmed 2595 Hoover Blvd. Los Angeles, CA 90007
Store 7047- Opened 4/2015 QWENCH Los Feliz 110 Sunshine Smoothies, Inc. Attn: Fariba Atighehchi 1915 Hillhurst Avenue Los Angeles, CA 90027 323-912-0644	Store 7114- Opened 11/2016 DRNK- South Bay Pavilion Jacky's Eatery, LLC Attn: Jackie Yu 20700 Avalon Blvd. B-21 Carson, CA 90746 562-239-2128
Store 7046- Opened 4/2015 QWENCH -Vermont 110 Sunshine Smoothies, Inc. Attn: Fariba Atighehchi 1528 Vermont Avenue Los Angeles, CA 90027 323-644-3016	Store 7050- Opened 10/2015 DRNK -Vermont 110 Sunshine Smoothies, Inc. Attn: Fariba Atighehchi 1528 Vermont Avenue Los Angeles, CA 90027 323-660-1232
Store 7048- Opened 5/2015 QWENCH 9 <sup>th</sup> and Flower 110 Sunshine Smoothies, Inc. Attn: Fariba Atighehchi 645 W. 9 <sup>th</sup> Street Los Angeles, CA 90015 213-789-4694	Store 7020 – Opened 12/2017 QWENCH Sherman Oaks Kaur Juice, Coffee & Tea, LLC Attn: Ajaz Khan 4550 Van Nuys Boulevard-Ste. C Van Nuys, CA 91403 818-981-1549
Store 7013 – Opened 1/2018 DRNK/QWENCH – Cascades Pridergy, LLC Attn: Tuan Vu 21385 Epicerie Plaza #150 Sterling, VA 20164 571-325-2946	Store 7020 – Opened 12/2018 QWENCH 8 <sup>th</sup> & Olive MC, Inc. Attn: Maz Cangarlu 850 S. Olive Street Los Angeles, CA 90014 (213) 278-0396

<b><u>Outlets in Development</u></b>	
Store 7007 DRNK/QWENCH Doctor Phillips Neerev Sangani 7557 W. Sand Lake Road Orlando, FL 32819 407-468-1674	Store 7036 DRNK/QWENCH North Hills TayRo, LLC Attn: Sophia-Sharp-Donaldson 8440 Balboa Blvd. Suite 106 North Hills, CA 805-444-0899
Store 7042 DRNK/QWENCH Westwood Incredivelli Industries, Inc. Attn: Raymond Mattox 1915 Hillhurst Avenue Los Angeles, CA 90027 323-660-1232	Store 7070 DRNK/QWENCH Little Elm Jayesh Ghia 1020 El Dorada Parkway #107 Little Elm, TX 75068 408-933-8384
Store 7062 DRNK/QWENCH Wateridge M&M Resources, Inc. Attn: Matt Schilz and Matty Marbach 5035 W. Slauson Avenue Los Angeles, CA 90056 626-808-8058/626-808-6177	Store 7031 DRNK/QWENCH The Heights Seven Star Enterprises, LLC Attn: Muhammed Bashir 5307 N. Main Street Houston, TX 77009 936-545-3689
Store 7073 DRNK/QWENCH Beach Boulevard PS California Import & Export, Inc. Attn: Enayatollah Kalantarian 18367 Beach Boulevard Huntington Beach, CA 92648 949-390-3825	Store 7032 DRNK/QWENCH West Houston Seven Star Enterprises, LLC Attn: Muhammed Bashir 2660 Eldridge Parkway South Houston, TX 77082 936-545-3689
Store 7009 QWENCH Clovis Fresh Creamery, Inc. Attn: Dhruv Doshi 1850 Herndon Ave. Clovis, CA 93611 559-288-6243	Store 7051 QWENCH Tru-Fusion San Jose APEX Sports & Wellness, Inc. Attn: Ann Tien 910 El Paso de Saratoga San Jose, CA 95130 415-240-3858
Store 7088 DRNK/QWENCH Northridge 4 Season Juice, inc. Attn: Fazel Ayadeh 19515 Nordhoff St. Northridge, CA 91324 818-940-9153	Store 7067 DRNK/QWENCH Pacific Beach Singh's Coffee, Inc. Attn: Rajvinder Chhokar 740 Herndon St. #102 San Diego, CA 91209 858-472-6287
Store 7066 DRNK/QWENCH Uptown Albuquerque DeNovo Way, Food & Beverage, LLC Attn: Vanessa and Ovidu DeNiro 2424 Louisiana Blvd. Albuquerque, NM 87110 505-252-2697	

Franchisees Who Have Executed Franchise Agreements but Not Yet With Approved Location*		
Store 7004 Divyesh Patel Florida 201-951-1753	Store 7037, 7038, 7039 Bay le Property Investments, LLC Attn: Bay Le Texas 832-284-1575	Store 7076, 7077 Fresh Creamery, Nic. Attn: Dhruv Doshi California 559-288-6243
Store 7006 The Blue Kitchen Café, Inc. Attn: Elliot and Carmit Solomon California 818-425-8937	Store 7040, 7041 TayRo, LLC Attn: Sophia Sharp-Donaldson California 805-444-0899	Store 7078, 7079 DeNovo Way Food & Beverage, LLC Attn: Vanessa & Ovi DeNiro New Mexico 505-252-2697
Store 7010, 7011, 7012 Neerav Sangani Florida 407-468-1674	Store 7043, 7044 Incredivelli Industries Corp. Attn: Raymond Mattox California 213-537-5664	Store 7081, 7082 MC, Inc. Attn: Maz Cangarlu California 310-754-5554
Store 7014, 7015, 7016 Pridergy, LLC Attn: Tuan Vu Virginia 703-867-7261	Store 7049 RJ2 Productions, LLC Attn: Jitesh Patel California 310-489-7045	Store 7083 Saji Matthew Florida 727-776-3827
Store 7017, 7018, 7019 AHA Juice & Coffee, LLC Attn: Ajaz Khan Texas 903-714-7988	Store 7052, 7053, 7054, 7055, 7056, 7057, 7058 APEX Sport & Wellness, Inc. Attn: Anna Tian California 415-240-3858	Store 7084, 7085 Ryan Suavet California 949-394-2352
Store 7021, 7022 Kaur juice, coffee & tea, LLC Attn: Rajinder Dhillon California 818-579-3751	Store 7059, 7060, 7061 Veera Hospitality Group, Inc. Attn: Gina Veeragoudar California 310-818-5633	Store 7086 Tho Phan Michigan 517-980-2887
Store 7023, 7024, 7025 Alaa Alawi Texas 832-815-8446	Store 7068, 7069 Rajvinder Singh Chhokar California 858-472-6287	Store 7087 William Zullo Tennessee 310-488-8357
Store 7026, 7027, 7028, 7029, 7030 Long Island Juice & Coffee, LLC Attn: Laura Maier New York 917-701-6854	Store 7071, 7072 Jayesh Ghia Texas 408-933-8384	Store 7088, 7089 4 Season Juice, Inc. Fazel Ayadeh – Ahvazi & Jalal Khafajizad California 818-940-7153
Store 7033, 7034, 7035 Seven Star Enterprises, LLC Attn: Muhammad Bashir Texas 936-545-3689	Store 7074, 7075 PS California Import & Export, Inc. Attn: Enayatollah Kalantarian 949-390-3825	Store 7090 Allison & Allan Nygren Colorado 719-271-8882



Store 7091, 7092, 7093 Janet Lawlor & Todd Haynes Ontario, Canada 905-483-5975	Store 7115, 7116, 7117, 7118 Rajesh Kumar & Group California 925-301-3983	Store 7204, 7205 Mahmoud Mohamed Ohio 513-292-7979
Store 7094 Mahmoud Mohamed Ohio 513-292-7979	Store 7120 Souleymane Sow & Miriam Diallo New York 212-361-9270	Store 7210, 7211, 7212 Coy & Newberry Enterprises LLC Attn Ruel Newberry Texas 915-777-4205
Store 7097 DDC Group Inc. Attn: Slava Borisov California 425-503-4961	Store 7121, 7122, 7123 Saji Matthew Florida 727-776-3827	Store 7213, 7214 Kunal and Ketan Kapadia New Jersey 201-962-2209
Store 7098, 7099, 7100, 7101, 7102, 7103 Dayong Zhao & Rui Zhao Hawaii 808-228-5039	Store 7202 Apna Chat Bhavan Inc. Attn: Srinivas Naidu Oregon 503-330-1313	Store 7215 Dat Hoang Buu Vo Texas 415-867-2501
Store 7104, 7105, 7106, 7107, 7108 Mitten Trivedi 848-565-5177	Store 7203 Wali Murphy North Carolina	

\*Note: For Franchisees without a business address, for privacy reasons only state where franchise granted and telephone number is provided.

## EXHIBIT G TO THE DISCLOSURE DOCUMENT

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### FRANCHISE DISCLOSURE QUESTIONNAIRE

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As you know, DRNK Coffee + Tea Franchising, LLC and Franchisee are preparing to enter into a Franchise Agreement for the operation of a Franchised Business. In this Franchisee Disclosure Questionnaire, DRNK Coffee + Tea Franchising, LLC will be referred to as "we" or "us." The purpose of this Questionnaire is to determine whether any statements or promises were made to Franchisee that we did not authorize and that may be untrue, inaccurate or misleading. Please review each of the following questions carefully and provide honest and complete responses to each question.

1. Did you receive a copy of the Disclosure Document, including the Franchise Agreement at least fourteen (14) calendar days prior to signing any binding agreement with, or making a payment to us or any of our affiliates in connection with the proposed franchise sale? If you reside in New York, Oklahoma or Rhode Island, or if the location of your prospective franchise is located within one of those states, did you receive a copy of the Disclosure Document at the earlier of (i) the first personal meeting; or (ii) ten (10) business days prior to signing any binding agreement or payment of any consideration? If you reside in Michigan or Washington, or if the location of your prospective business is located within one of those states, did you receive the Disclosure Document at least ten (10) business days before the execution of any binding franchise or other agreement or the payment of any consideration?

Yes \_\_\_ No \_\_\_

If "No", please comment.

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2. Have there been any other inducements made with any person or entity encouraging you to purchase a franchise from us such as a "side deal" or other promise or agreement not included in the Franchise Agreement?

Yes \_\_\_ No \_\_\_

If "Yes", please comment in detail.

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3. Have you received and personally reviewed DRNK Coffee + Tea Franchising, LLC Franchise Agreement and each exhibit, addendum and schedule attached to it?

Yes \_\_\_ No \_\_\_

4. Do you understand all of the information contained in the Franchise Agreement and each exhibit and schedule attached to it?

Yes \_\_\_ No \_\_\_

If "No", what parts of the Franchise Agreement do you not understand?  
(Attach additional pages, if necessary.)

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5. Have you received, studied and personally reviewed carefully Franchisor's Disclosure Document Franchisor provided to you?

Yes \_\_\_ No \_\_\_

6. Do you understand all of the information contained in the Disclosure Document?

Yes \_\_\_ No \_\_\_

If "No", what parts of the Disclosure Document do you not understand?  
(Attach additional pages, if necessary.)

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7. Have you discussed the benefits and risks of operating the Franchised Business with an attorney, accountant or other professional advisor and do you understand those risks?

Yes \_\_\_ No \_\_\_

8. Do you understand that the license granted in the Franchise Agreement is for the right to operate a franchise at the approved location only and includes no exclusive area or protected territory, and that we and our affiliates have the right to issue franchises or operate competing businesses for or at locations, as we may determine, near your authorized location? In addition, do you understand that these locations may include freestanding buildings, strip centers, shopping malls, and other similar locations, as well as locations such as office buildings, petroleum stations, food courts, transportation terminals, sports facilities, airports, hotels, hospitals, and college and university student unions, dormitories, and food service areas?

Yes \_\_\_ No \_\_\_

If "No", please comment.

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9. Do you understand that the success or failure of Franchisee's business will depend in large part upon Franchisee's skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease terms and other economic and business factors?

Yes \_\_\_ No \_\_\_

10. Has any employee or other person speaking on Franchisor's behalf made any statement or promises concerning the revenues, profits or operating costs of the Franchised Business that Franchisor or our franchisees operate?

Yes \_\_\_ No \_\_\_

11. Has any employee or other person speaking on Franchisor's behalf made any statement or promise concerning a Franchised Business that is contrary to, or different from, the information contained in the Disclosure Document?

Yes \_\_\_ No \_\_\_

12. Has any employee or other person speaking on Franchisor's behalf made any statement or promise concerning the likelihood of success that you should or might expect to achieve from operating a Franchised Business?

Yes \_\_\_ No \_\_\_

13. Has any employee or other person speaking on Franchisor's behalf made any statement, promise or agreement concerning the advertising, marketing, training, support service or assistance that Franchisor will furnish to you that is contrary to, or different from, the information contained in the Disclosure Document?

Yes \_\_\_ No \_\_\_

14. If you have answered "Yes" to any of questions 10 through 13, please provide a full explanation of your answer in the following blank lines. (Attach additional pages, if necessary, and refer to them below.) If you have answered "No" to each of these questions, please leave the following lines blank.

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12. Do you understand that in all dealings with you, Franchisor's officers, directors, employees and agents act only in a representative capacity and not in an individual capacity and these dealings are solely between Franchisee and Franchisor?

Yes \_\_\_ No \_\_\_

You understand that your answers are important to Franchisor and that Franchisor will rely on them.

By signing this Franchisee Disclosure Questionnaire, you are representing that you have responded truthfully to the above questions.

\_\_\_\_\_  
Name of Franchisee/Applicant

Date: \_\_\_\_\_, 20\_\_\_\_

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name and Title of Person Signing

# EXHIBIT H TO THE DISCLOSURE DOCUMENT

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## INDIANA ADDENDUM

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1. ITEM 8 of the Disclosure Document is amended to add the following:
  - Under Indiana Code Section 23-2-2.7-1(4), the franchisor will not obtain money, goods, services, or any other benefit from any other person with whom the franchisee does business, on account of, or in relation to, the transaction between the franchisee and the other person, other than for compensation for services rendered by the franchisor, unless the benefit is promptly accounted for, and transmitted by the franchisee.
2. ITEMS 6 and 9 of the Disclosure Document are amended to add the following:
  - The franchisee will not be required to indemnify franchisor for any liability imposed upon franchisor as a result of franchisee's reliance upon or use of procedures or products that were required by franchisor, if the procedures or products were utilized by franchisee in the manner required by franchisor.
3. ITEM 17(c) may be modified by Indiana Code 23-2-2.7.
4. ITEM 17 of the Disclosure Document is amended to add the following:
  - Indiana Code 23-2-2.7-1(7) makes unlawful unilateral termination of a franchise unless there is a material violation of the Franchise Agreement and termination is not in bad faith.
  - Indiana Code 23-2-2.7-1(5) prohibits a prospective general release of claims subject to the Indiana Deceptive Franchise Practices Law.
  - ITEM 17(r) is amended subject to Indiana Code 23-2-2.7-1(9) to provide that the post-term non-competition covenant shall have a geographical limitation of the territory granted to Franchisee.
  - ITEM 17(t) is supplemented with the following language:

However, you do not waive any rights under the Indiana Statutes with regard to prior representations made by us in the Disclosure Document.
  - ITEM 17(v) is amended to provide that Franchisees will be permitted to commence litigation in Indiana for any cause of action under Indiana Law.
  - ITEM 17(w) is amended to provide that in the event of a conflict of law, Indiana Law governs any cause of action that arises under the Indiana Disclosure Law or the Indiana Deceptive Franchise Practices Act.
5. Indiana Code§ 23-2-2.5-9 (2) requires a franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) 10 days prior to signing the franchise agreement; or (ii) 10 days prior to franchisor's receipt of any consideration. The Receipt is amended to reflect the 10 day waiting period.

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## RECEIPT

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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 DRNK Coffee + Tea Franchising, LLC offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale unless otherwise stated in your state's addendum. The delivery of the disclosure document is to be received 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 in the States of Maryland or New York.

If DRNK Coffee + Tea Franchising, LLC does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the State Administrator listed in Exhibit A.

The following are the names, principal business addresses, and telephone numbers of each franchise seller offering the franchise:

DRNK Coffee + Tea Franchising, LLC, 350 S Grand Ave., Suite 3070, Los Angeles, CA 90071, 323-825-5373.

Our agent for service of process for California is listed in Item 1. Our agents for service of process in all other states are listed in Exhibit B.

I have received a disclosure document with an issuance date of April 22, 2019

- A. List of State Administrators
- B. List of State Agents for Service of Process
- C. Franchise Agreement
- D. Table of Contents to the Operations Manual
- E. Financial Statements
- F. List of Current Franchisees
- G. Franchisee Disclosure Questionnaire
- H. Indiana Addendum

Please sign and print your name below, date and return one copy of this receipt to DRNK Coffee + Tea Franchising, LLC and keep the other for your records.

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

Date of Receipt: \_\_\_\_\_

Company Name: \_\_\_\_\_

Return To:  
DRNK Coffee + Tea Franchising, LLC  
350 S Grand Ave., Suite 3070  
Los Angeles, CA 90071

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Return To:  
DRNK Coffee + Tea Franchising, LLC  
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Los Angeles, CA 90071